

2008 0245

IGSL

Just a Bump in the Road?

Bay Area Economic Outlook

January 24, 2008



Association of Bay Area Governments

101 Eighth Street • Oakland, CA • 510-464-7900 • www.abag.ca.gov



Digitized by the Internet Archive
in 2026 with funding from
State of California and California State Library

<https://archive.org/details/C104725094>

Agenda

8:30am Registration

9:00am Welcome and Overview

Rose Jacobs Gibson, ABAG President
San Mateo County Supervisor
Paul Fassinger, Research Director
Association of Bay Area Governments

9:10am Will California Have a Clear Road into the Future?

Howard Roth, Chief Economist
California Department of Finance

- To what degree will the housing slowdown affect the State's economy?
- What will be the reverberations of higher energy prices?
- Where will we see strength in the State's economy?

9:50am Bay Area Outlook: A Bump in the Road?

Paul Fassinger, Research Director
Association of Bay Area Governments

- Bay Area index of leading indicators: Still rosy?
- Overall, is the regional economy stronger or weaker than a year ago?
- Economic trends in the Bay Area's future: what can be expected?

10:30am Break

10:45am Bay Area Retail Sales: The Short-term Outlook

Hing Wong, Senior Regional Planner
Association of Bay Area Governments

- County-by-county taxable sales forecast
- Who is winning and losing when it comes to sales tax

11:15am The Residential Real Estate Market: Dire Straights or Recovery by 2009?

Gerald P. Cox, Director of Sales and Marketing
RealFacts

- Current trends: Rising rental prices for California and the Bay Area
- What the data tells us about the demand for more rental housing
- Bay Area vs. California - how the Bay Area differs from the State



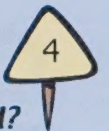
Will California Have a Clear Road into the Future?

Howard Roth
Chief Economist
California Department of Finance



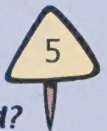
Last Year's Overview

- California and national housing sector downturns are not yet over - both economies will decelerate in the first half of 2007
- Both economies should pick up in 2008
- Major risks:
 - The housing sector downturns turn out to be worse than expected
 - Interest rates jump



This Year's Overview

- The California and national housing sector slumps showed no signs of abating at yearend
- 2008 will be a weak year for both economies
- Best case: economic growth stabilizes at a low level at yearend
- The risk on a recession has increased considerably
- Major risks to the outlook:
 - The housing sector downturns turn out to be worse than expected
 - Higher energy prices



Real GDP

Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis



Residential Construction, Adjusted for Inflation

Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis



Consumer Spending, Adjusted for Inflation

Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis

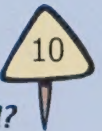


California Nonfarm Payroll Employment Annual Average Growth



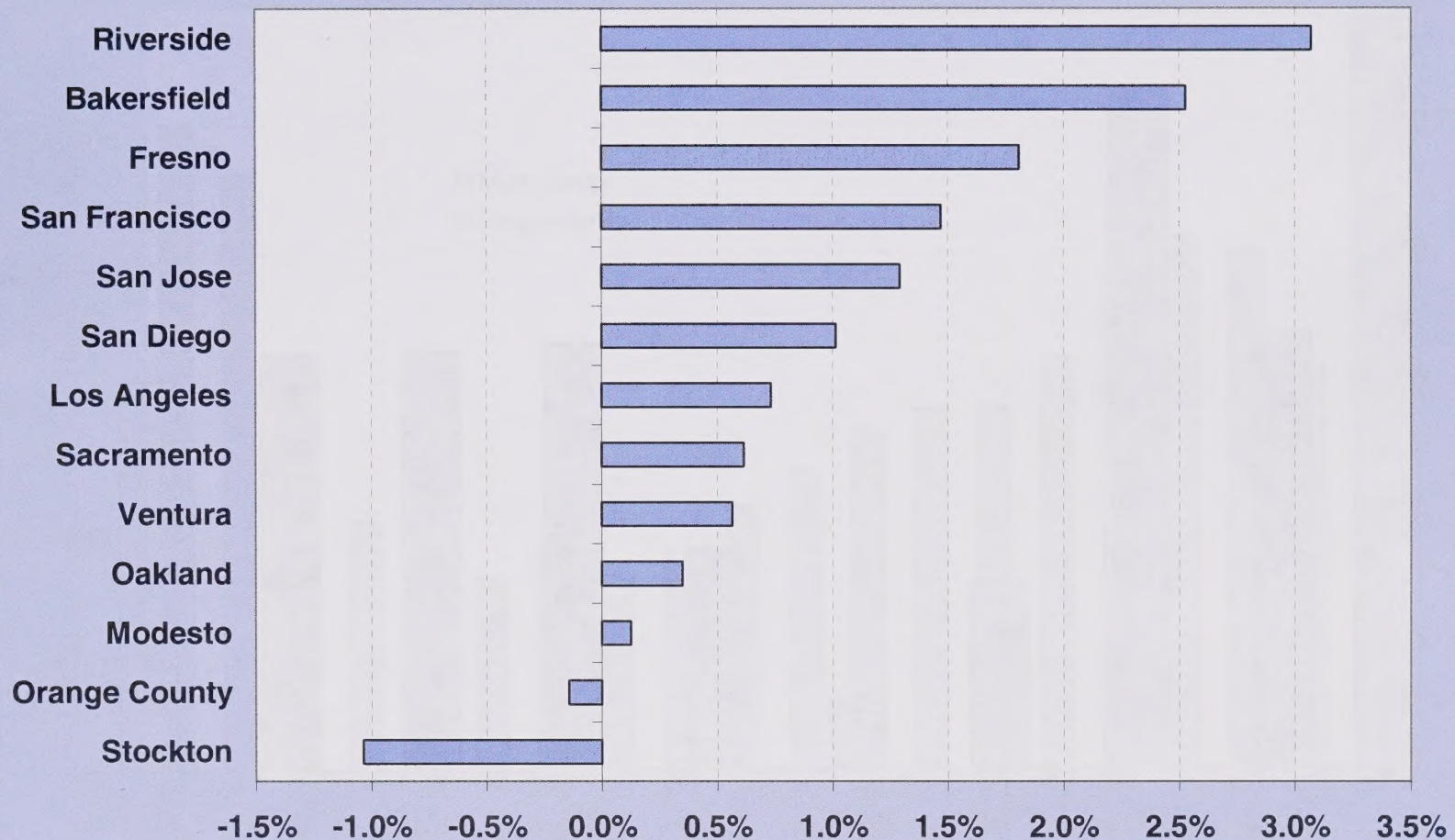
Jobs Growth Slows

	Average Monthly California Job Gain	Percentage of National Job Gain
2005	27,200	12.9%
2006	21,700	11.5%
2007	6,600	6.0%



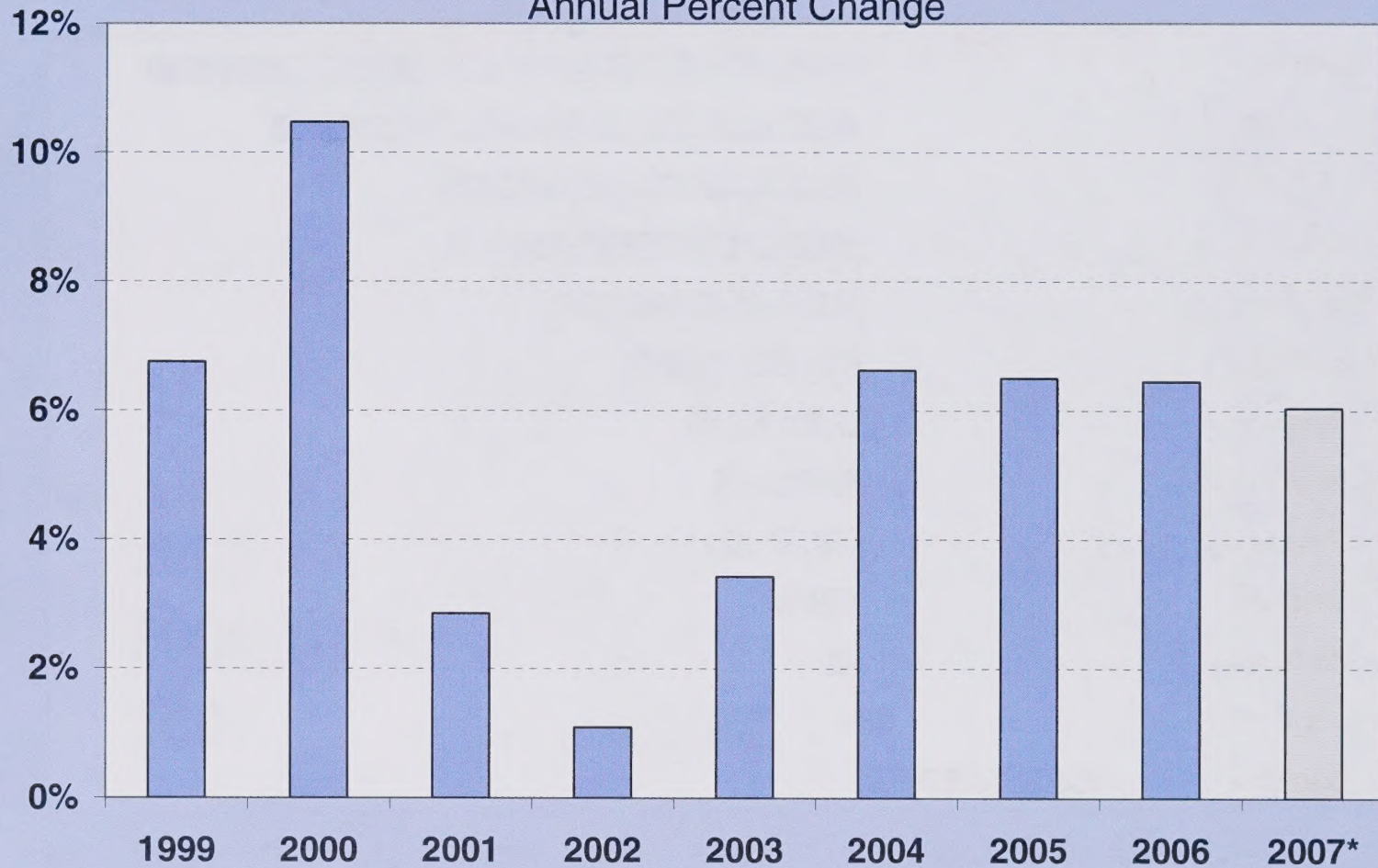
Nonfarm Payroll Employment Growth

November 2006 to November 2007



California Personal Income

Annual Percent Change

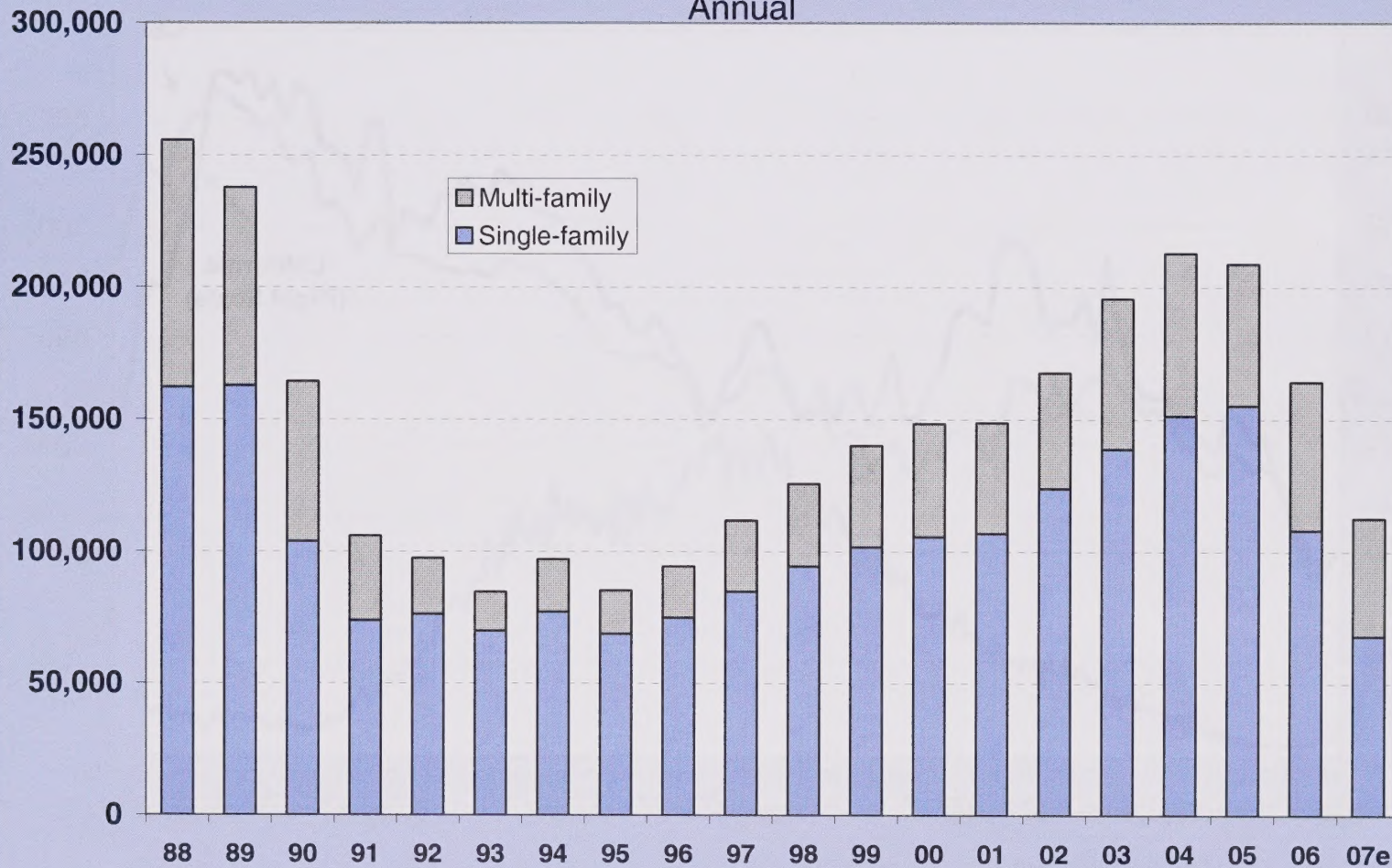


* first three quarters; Source: U.S. Bureau of Economic Analysis



California Housing Permits Tumble

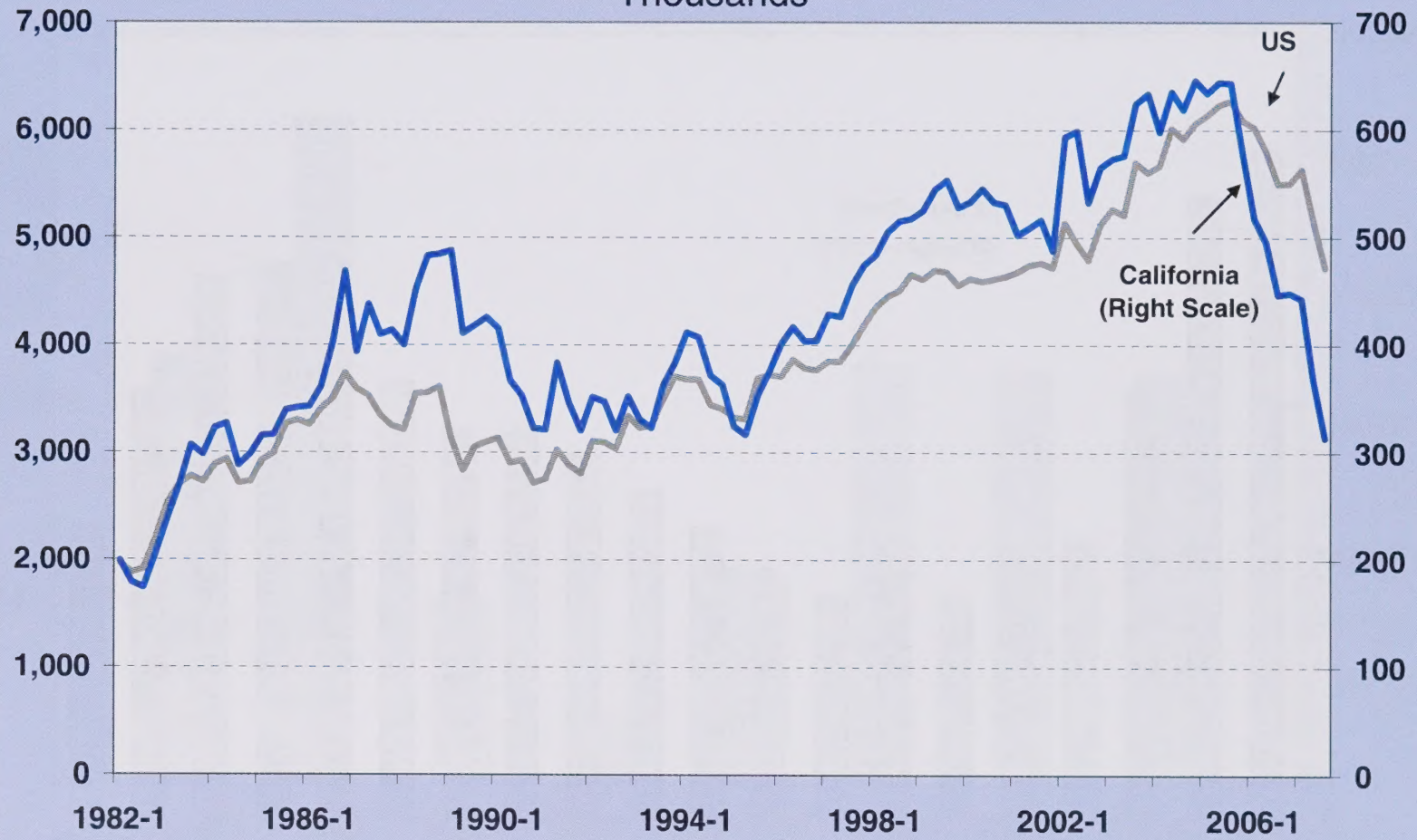
Annual



e: estimate based on data through November; Source: Construction Industry Research Board



Existing Single-Family Home Sales in CA and the Nation Thousands



Sources: The National and California Associations of Realtors



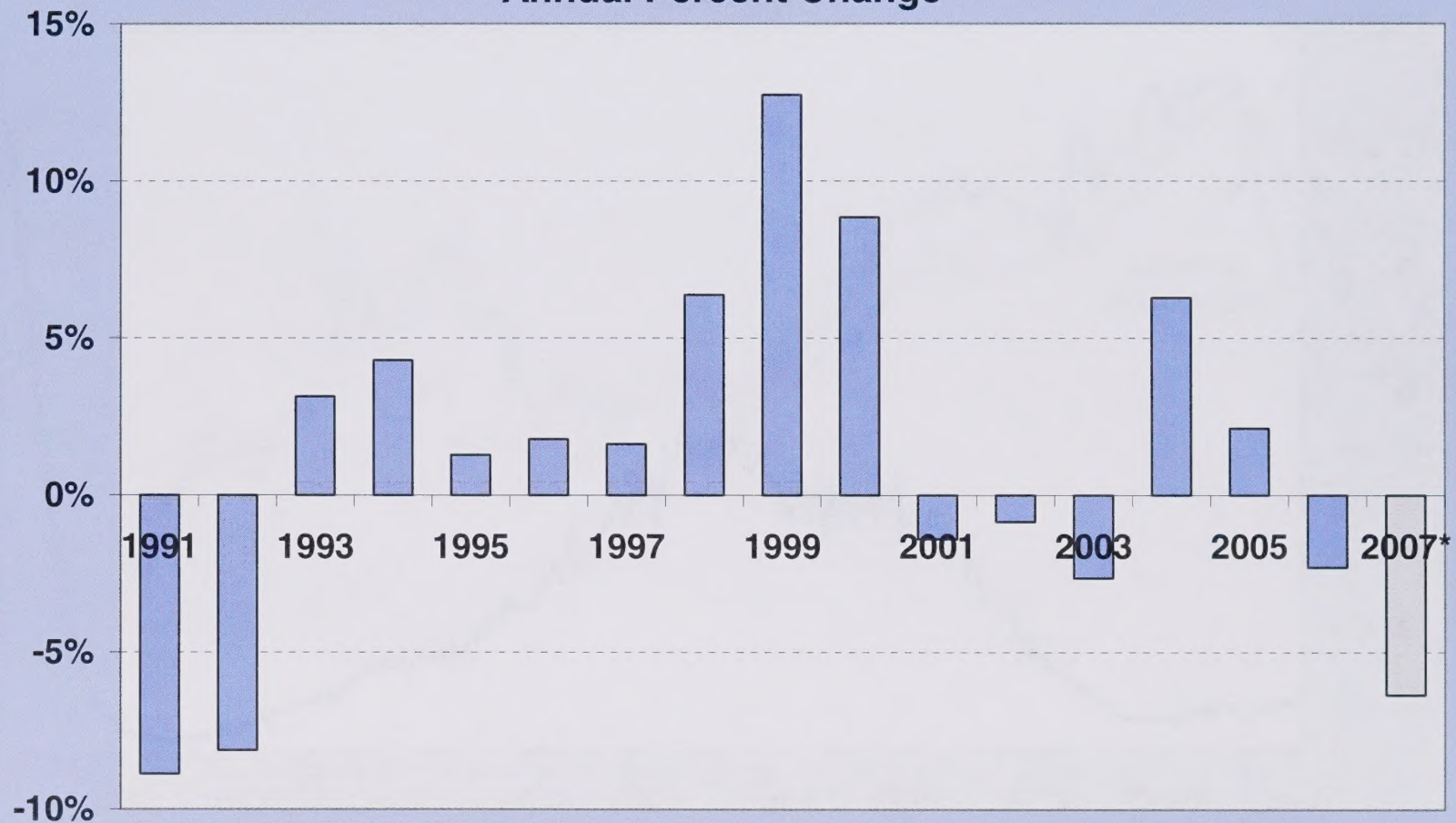
California Home Foreclosures Monthly



Source: DataQuick



New Vehicle Registrations in California Slip Annual Percent Change

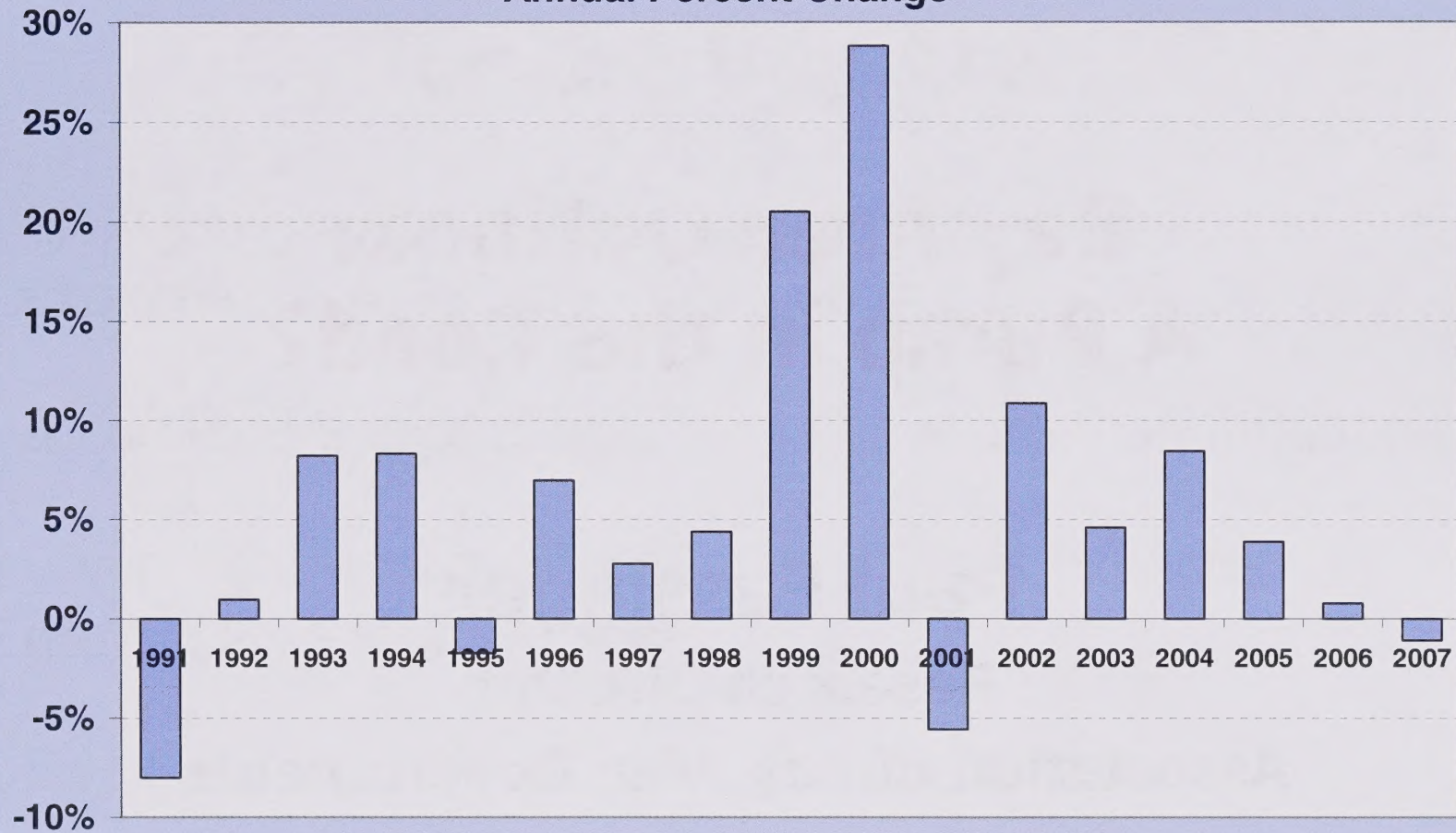


* through November; Source: California Department of Motor Vehicles



New Business Incorporations in California

Annual Percent Change



Source: California Secretary of State



Bay Area Outlook: A Bump in the Road?

Paul Fassinger

Research Director

Association of Bay Area Governments



ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

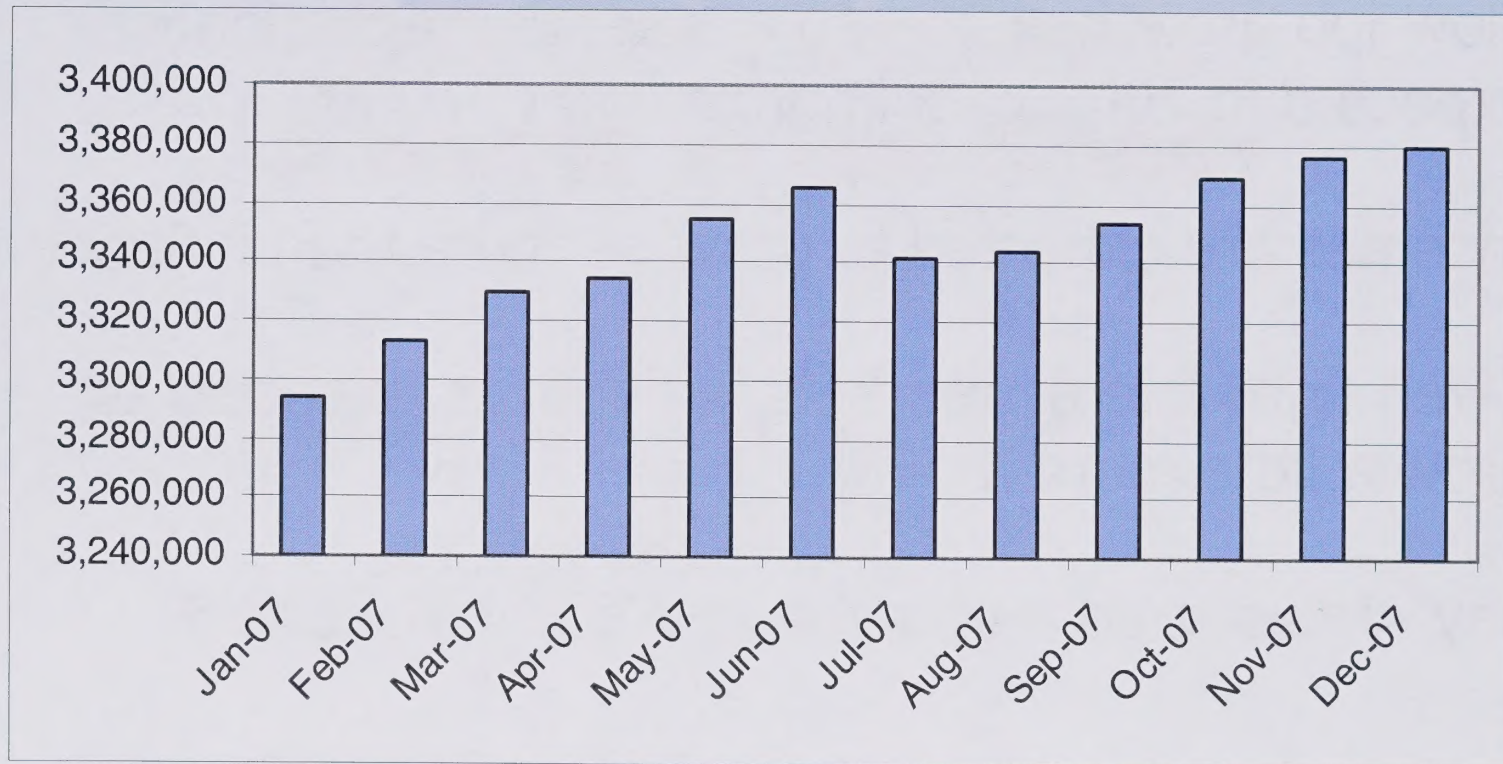
Short Term Expectations for the Bay Area

- Slow job growth and even a potential recession is expected in 2008 with improvement in 2009
- Incomes are expected to grow no more than inflation
- Given tight energy markets, inflation is expected to grow a little more rapidly
- Bay Area should mirror the rest of the nation



Bay Area Employment

EDD Industry Employment

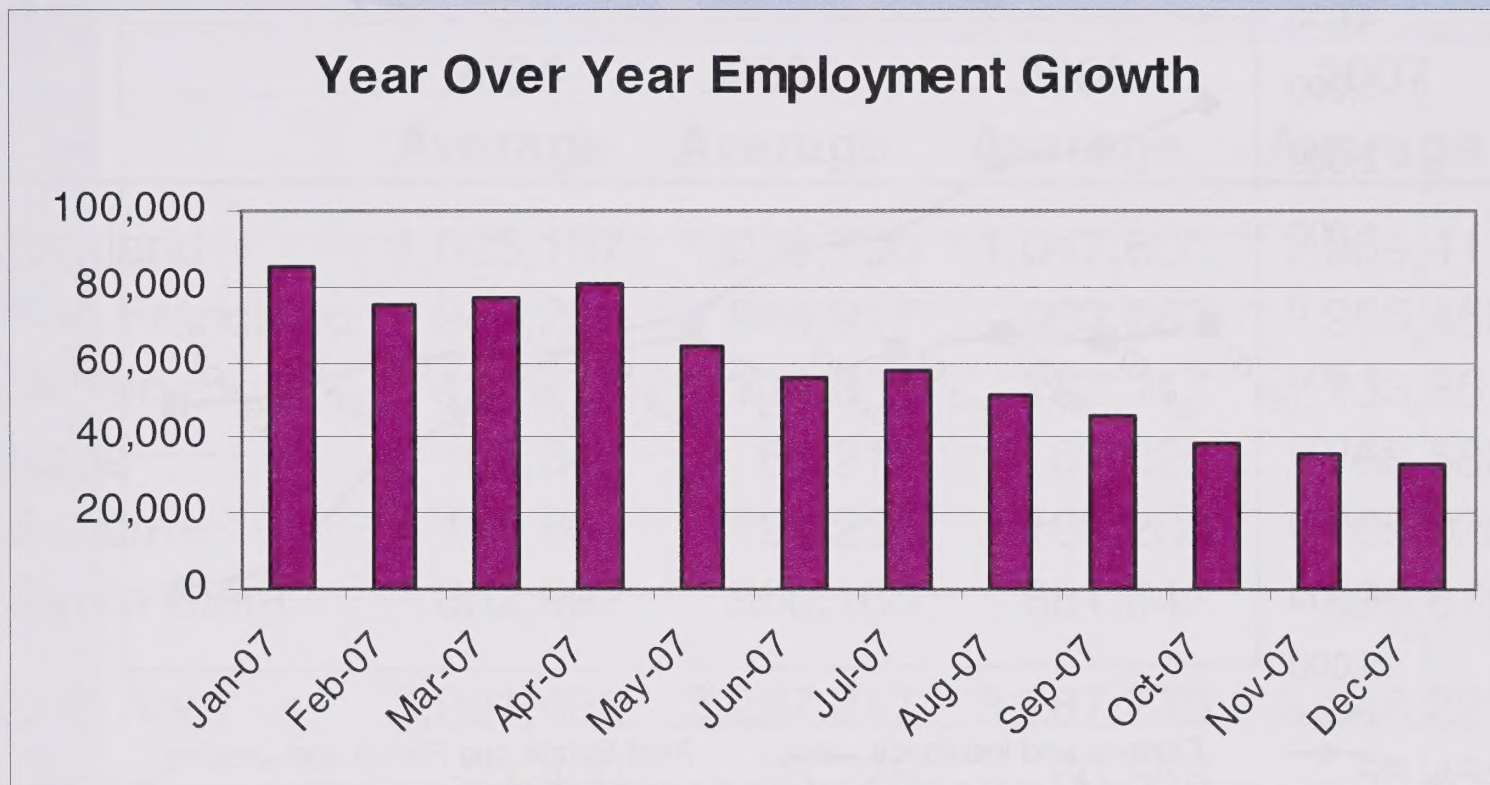


Source: California Employment Development Department



Year Over Year Change for 2007

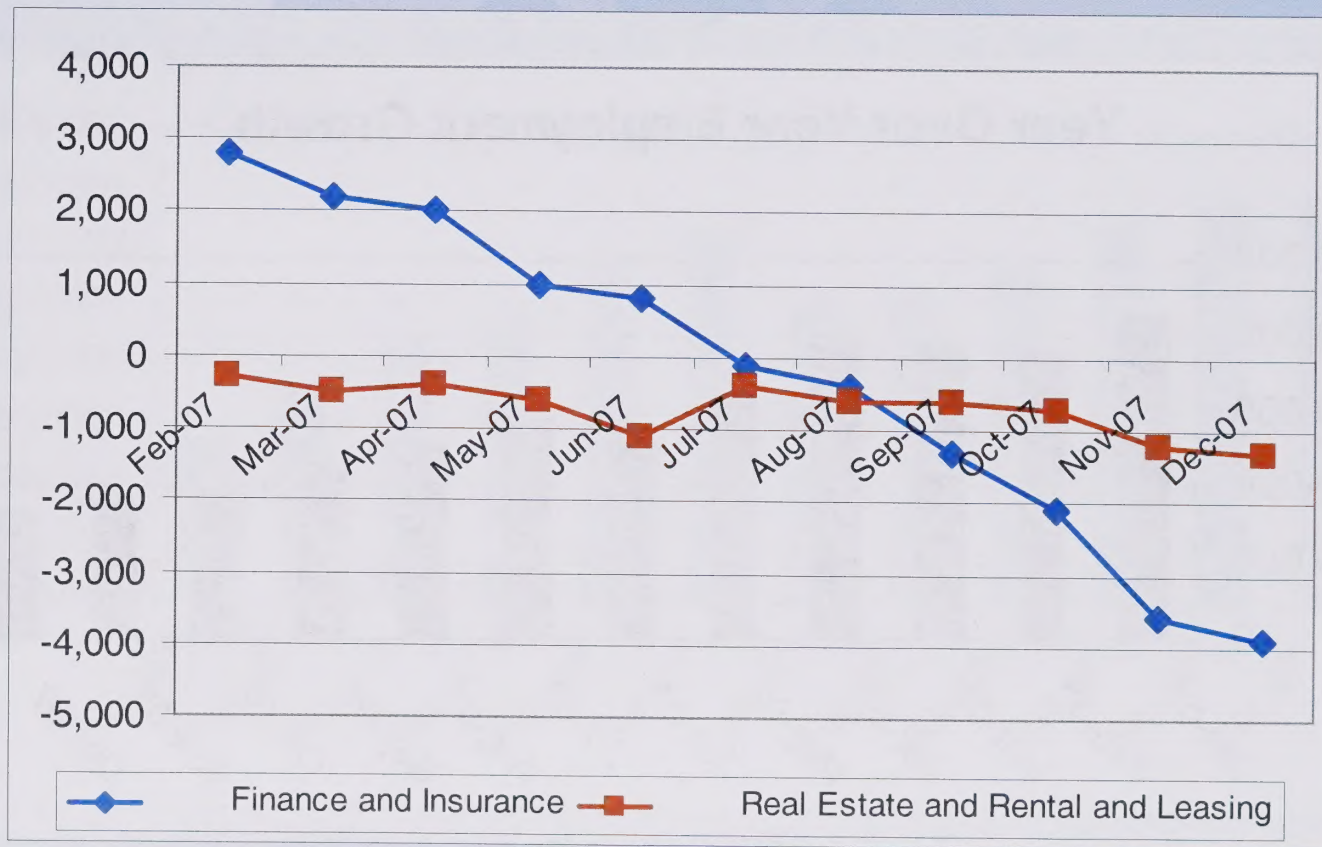
EDD Industry Employment



Source: California Employment Development Department

Change in Finance and Real Estate

Year Over Year



Source: California Employment Development Department

Recent Job Growth History

Primary Metropolitan Statistical Areas

	2004 Average	2005 Average	2006 Average	2007 Average
Oakland	1,025,167	1,033,700	1,047,600	1,059,417
San Francisco	940,250	944,917	963,883	985,458
Vallejo	126,775	130,033	132,117	133,867
Napa	65,642	66,217	67,325	68,583
Sonoma	190,667	192,250	195,208	199,025
Santa Clara	852,992	860,100	881,642	899,875
Bay Area	3,201,492	3,227,217	3,287,775	3,346,225
<i>Change</i>	-21,400	25,725	60,558	58,450



Unemployment Rates

Primary Metropolitan Statistical Areas

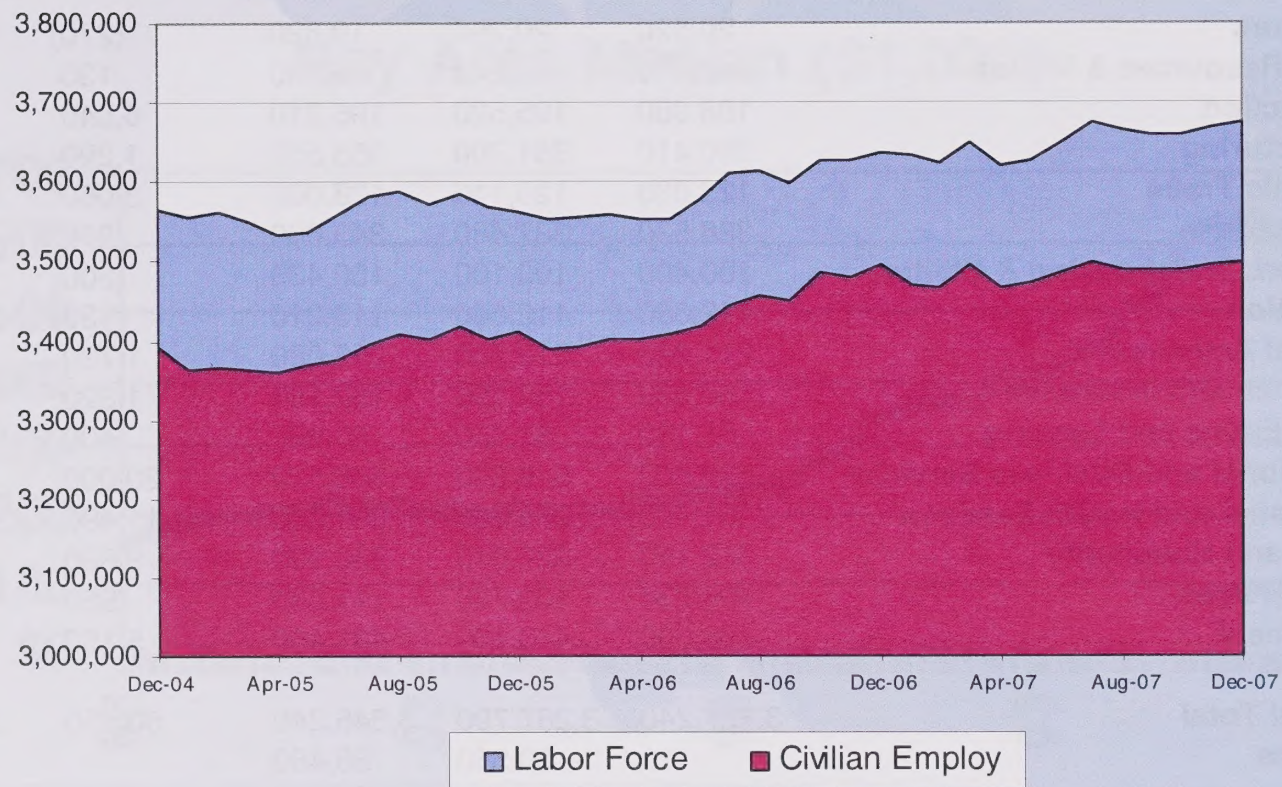
	Dec-04	Dec-05	Dec-06	Dec-07
Oakland	4.9%	4.3%	3.9%	5.0%
San Francisco	4.5%	3.9%	3.4%	4.2%
Vallejo	5.3%	4.7%	4.4%	5.8%
Sonoma	4.4%	3.9%	3.6%	4.7%
Santa Clara	5.5%	4.6%	4.1%	5.1%
Napa	5.0%	4.3%	3.9%	5.1%
Bay Area	4.9%	4.2%	3.8%	4.8%



Source: California Employment Development Department

Labor Force Survey

San Francisco Bay Area



Source: California Employment Development Department

Jobs by Industry

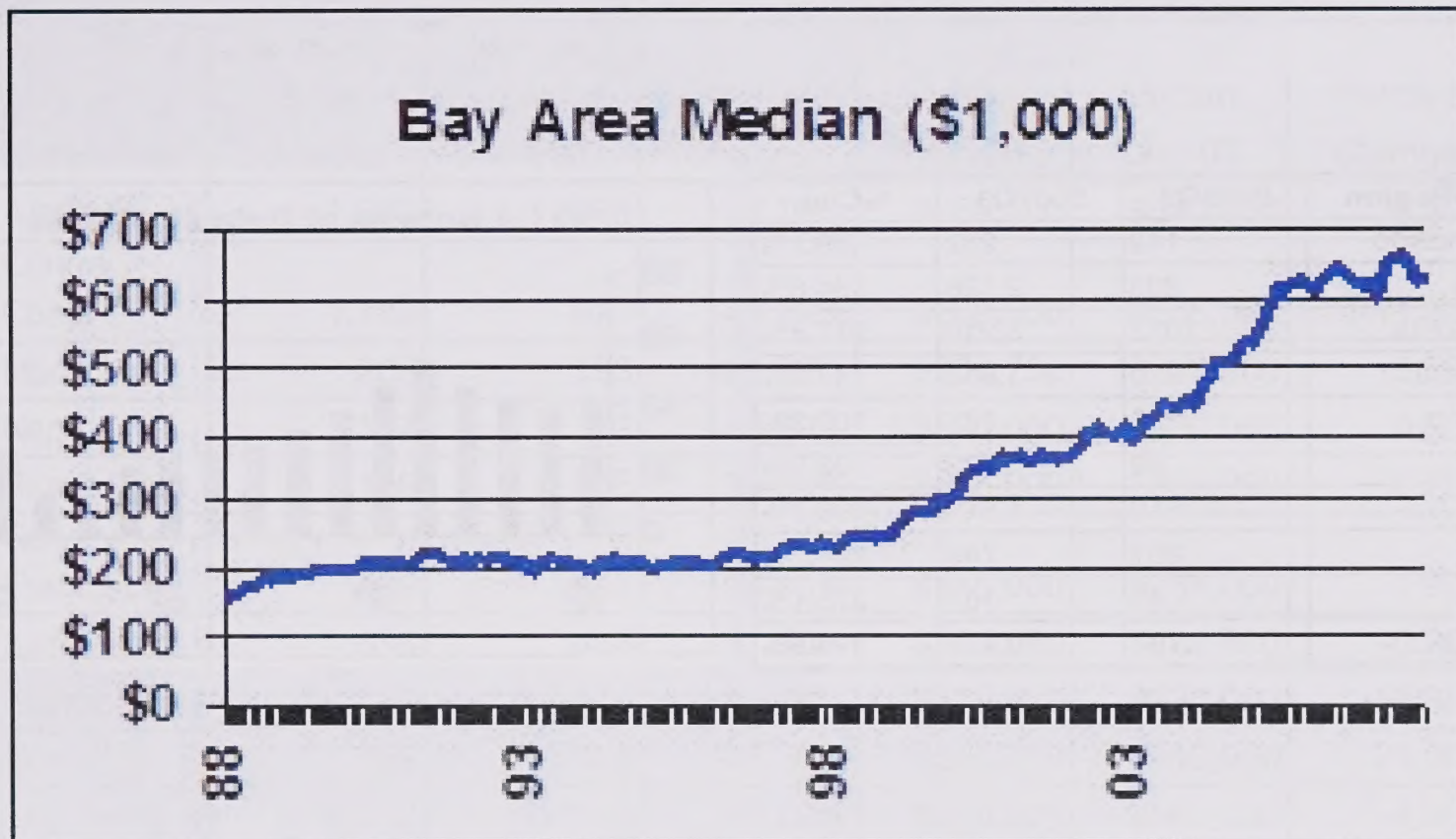
San Francisco Bay Area

	2005	2006	2007	2005-06	2006-07
Agriculture	20,520	20,250	19,820	(270)	(430)
Natural Resources & Mining	2,110	2,240	2,450	130	210
Construction	188,980	195,520	195,210	6,540	(310)
Manufacturing	350,410	351,700	355,560	1,290	3,860
Wholesale Trade	123,080	126,140	128,000	3,060	1,860
Retail Trade	336,530	337,480	343,630	950	6,150
Transport. Warehousing & Utilities	100,400	100,100	100,430	(300)	330
Information	112,680	112,650	113,210	(30)	560
Financial Activities	211,980	213,700	213,080	1,720	(620)
Finance and Insurance	150,830	152,150	152,160	1,320	10
Real Estate and Leasing	61,150	61,550	60,920	400	(630)
Professional and Business Services	529,800	549,800	566,520	20,000	16,720
Educational and Health Services	361,770	373,260	384,860	11,490	11,600
Leisure and Hospitality	312,150	322,010	330,990	9,860	8,980
Other Services	108,830	109,780	111,080	950	1,300
Government	468,000	473,160	481,400	5,160	8,240
Regional Total	3,227,240	3,287,790	3,346,240	60,550	58,450
Change		60,550	58,450		



Source: California Employment Development Department

Home Prices

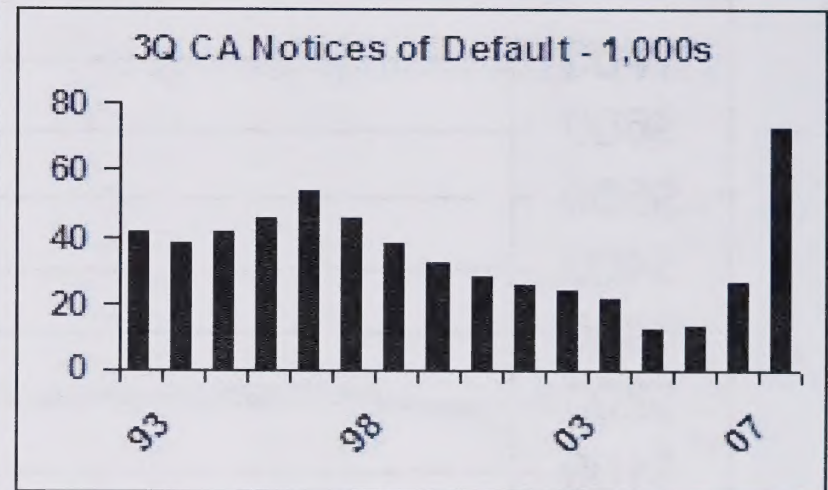


Source: DataQuick

Real Estate Distress

Notices of Default

County/Region	2006Q3	2007Q3	%Chg
San Francisco	149	252	69.1%
Alameda	803	2,126	164.8%
Contra Costa	1012	3,216	217.8%
Santa Clara	670	1,655	147.0%
San Mateo	290	581	100.3%
Marin	89	172	93.3%
Solano	510	1,513	196.7%
Sonoma	231	749	224.2%
Napa	43	163	279.1%
Bay Area	3,797	10,427	174.6%



Source: DataQuick

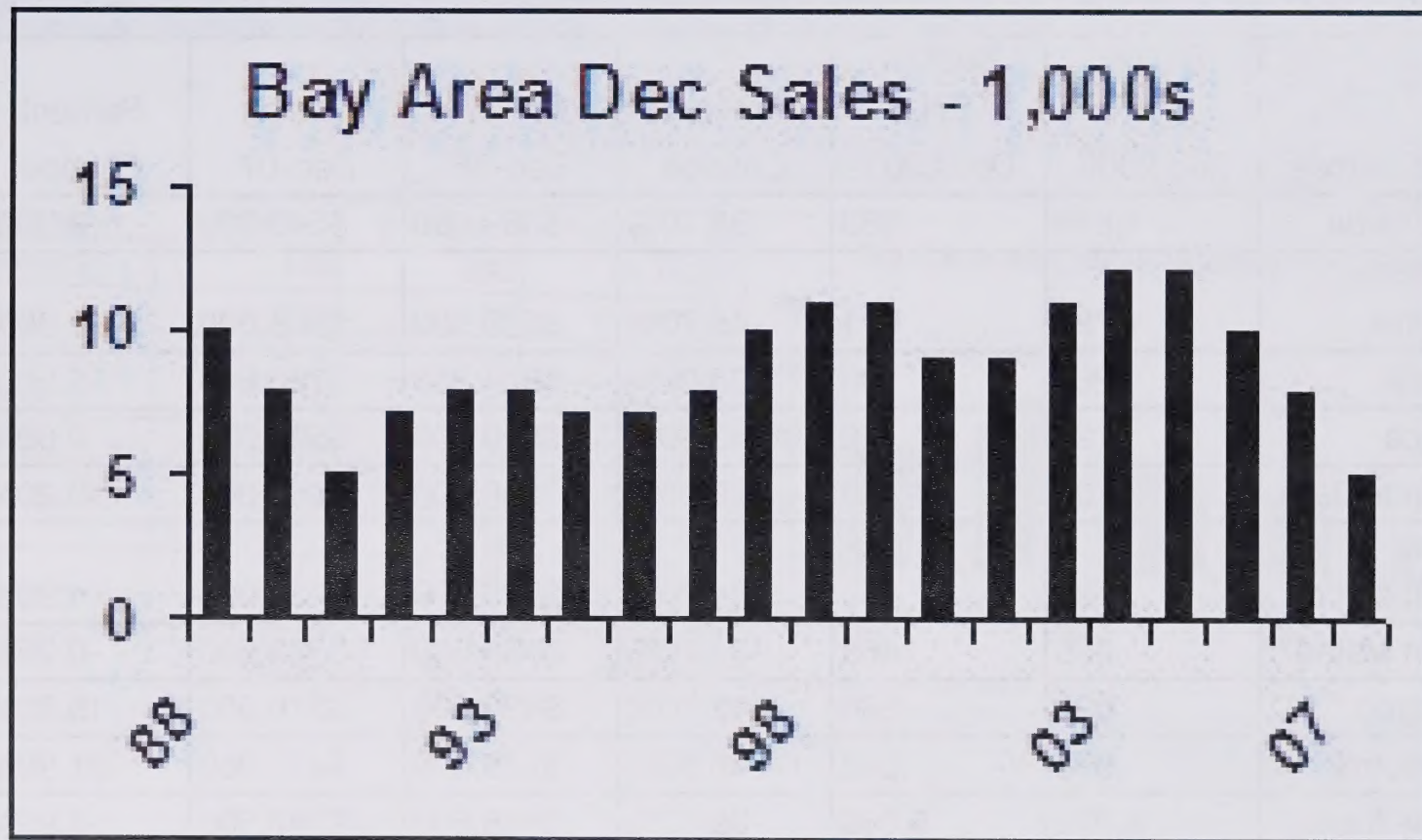
Recent Housing Price Data

All Homes	Number Sold Dec 2006	Number Sold Dec 2007	Percent Change	Median Dec-06	Median Dec-07	Percent Change
Alameda	1,589	983	-38.10%	\$589,000	\$540,000	-8.30%
Contra Costa	1,788	971	-45.70%	\$569,500	\$505,000	-11.30%
Marin	268	193	-28.00%	\$804,750	\$760,500	-5.50%
Napa	127	72	-43.30%	\$590,000	\$590,000	0.00%
Santa Clara	2,106	1,265	-39.90%	\$656,000	\$655,000	-0.20%
San Francisco	589	445	-24.40%	\$745,000	\$731,000	-1.90%
San Mateo	685	468	-31.70%	\$735,000	\$733,500	-0.20%
Solano	622	360	-42.10%	\$439,500	\$370,000	-15.80%
Sonoma	598	308	-48.50%	\$525,000	\$410,000	-21.90%
Bay Area	8,372	5,065	-39.50%	\$618,000	\$587,500	-4.90%



Source: DataQuick

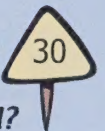
Comparison of December Home Sales



Source: DataQuick

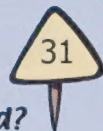
ABAG Bay Area Economic Outlook 2008-09

Just a Bump in the Road?



Bay Area Index

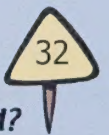
- Leading economic indicator for the Bay Area
- Indicates employment growth 3-6 months in advance
- Components include:
 - Book to Bill Ratio for Printed Circuit Boards
 - S&P 500
 - Airline Passenger Travel
 - Regional Retail Sales Data
- Components represent 12-month moving averages



Bay Area Index

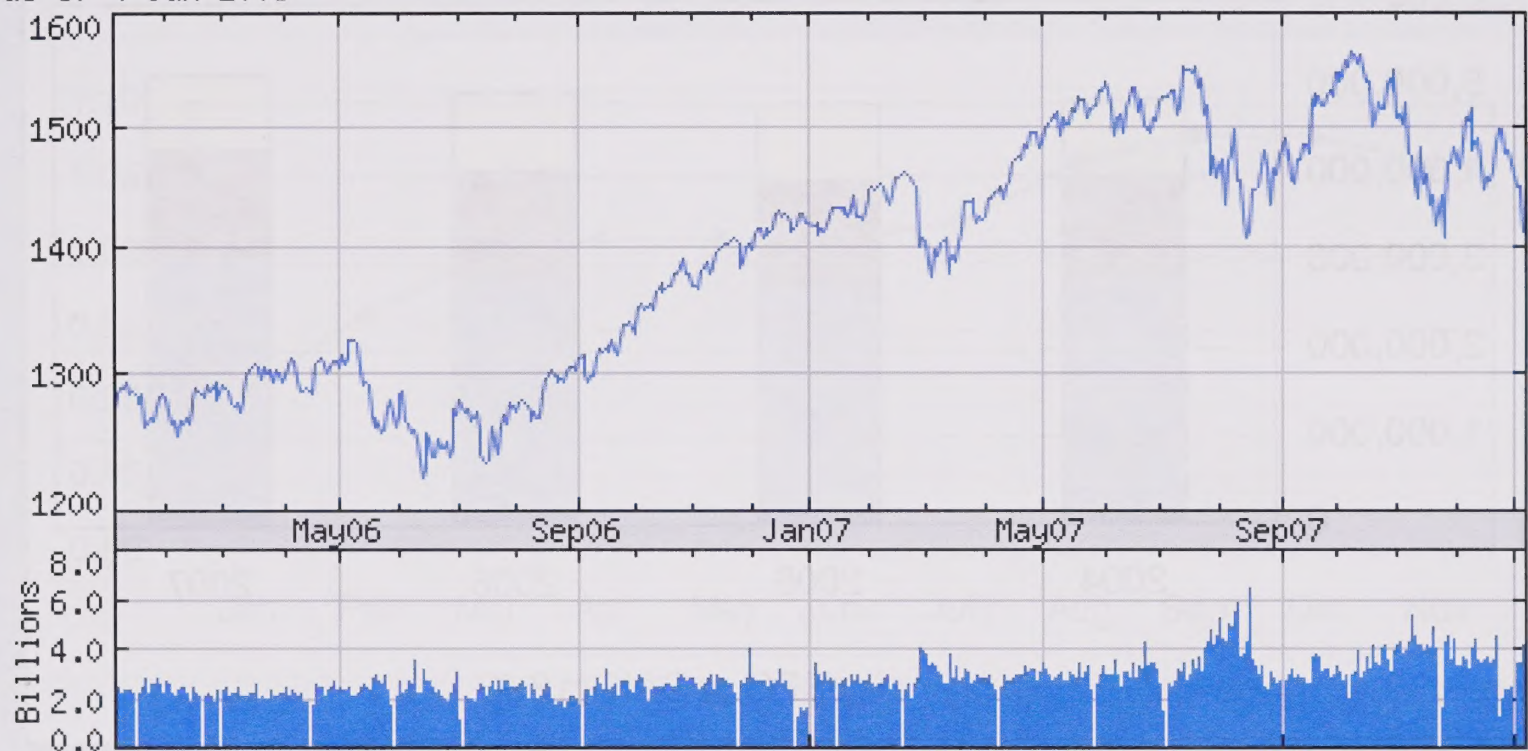


Source: ABAG



S&P 500 Index

S&P 500 INDEX (STANDARD & POOR)
as of 4-Jan-2008

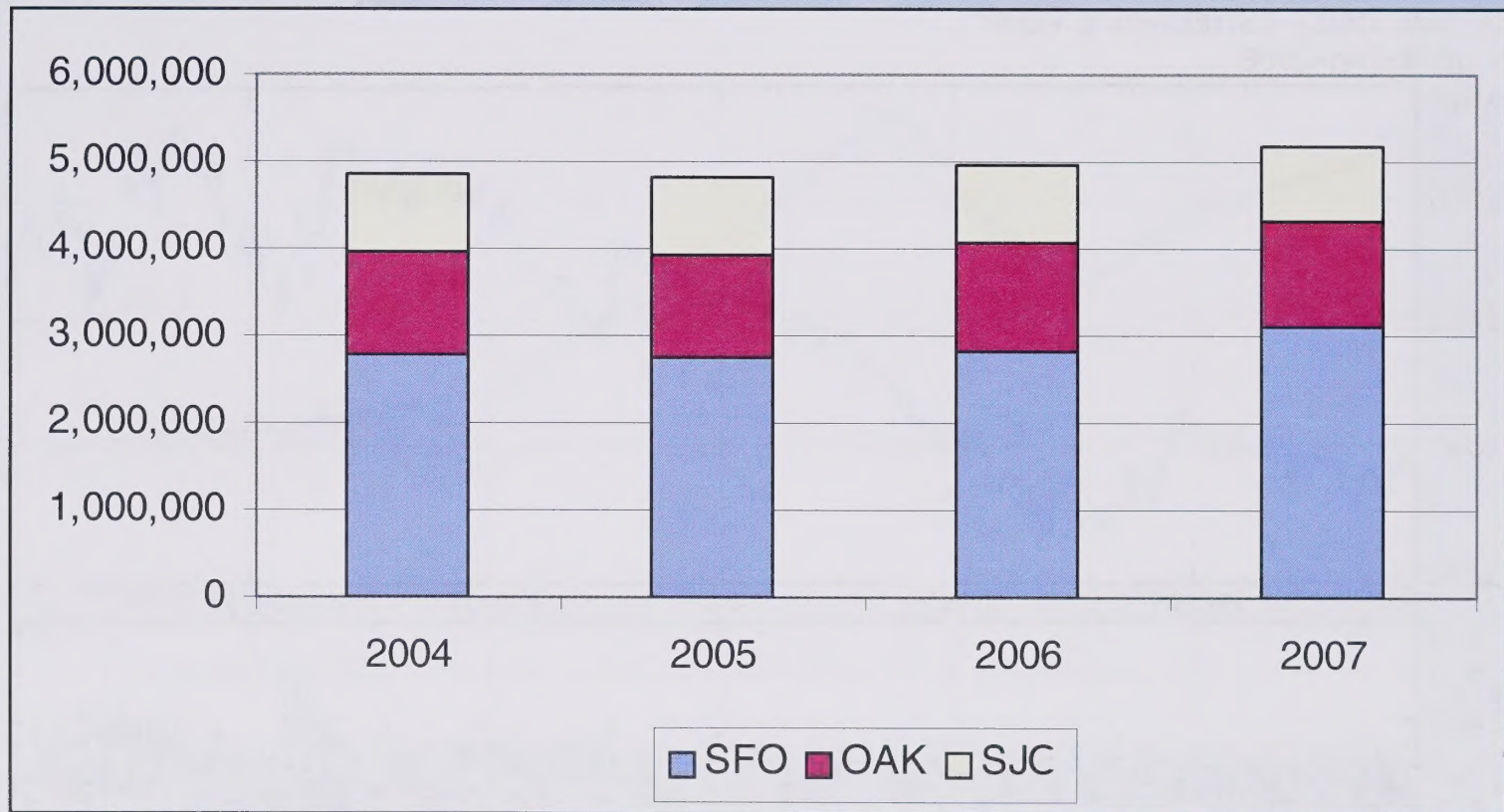


Copyright 2008 Yahoo! Inc.

<http://finance.yahoo.com/>



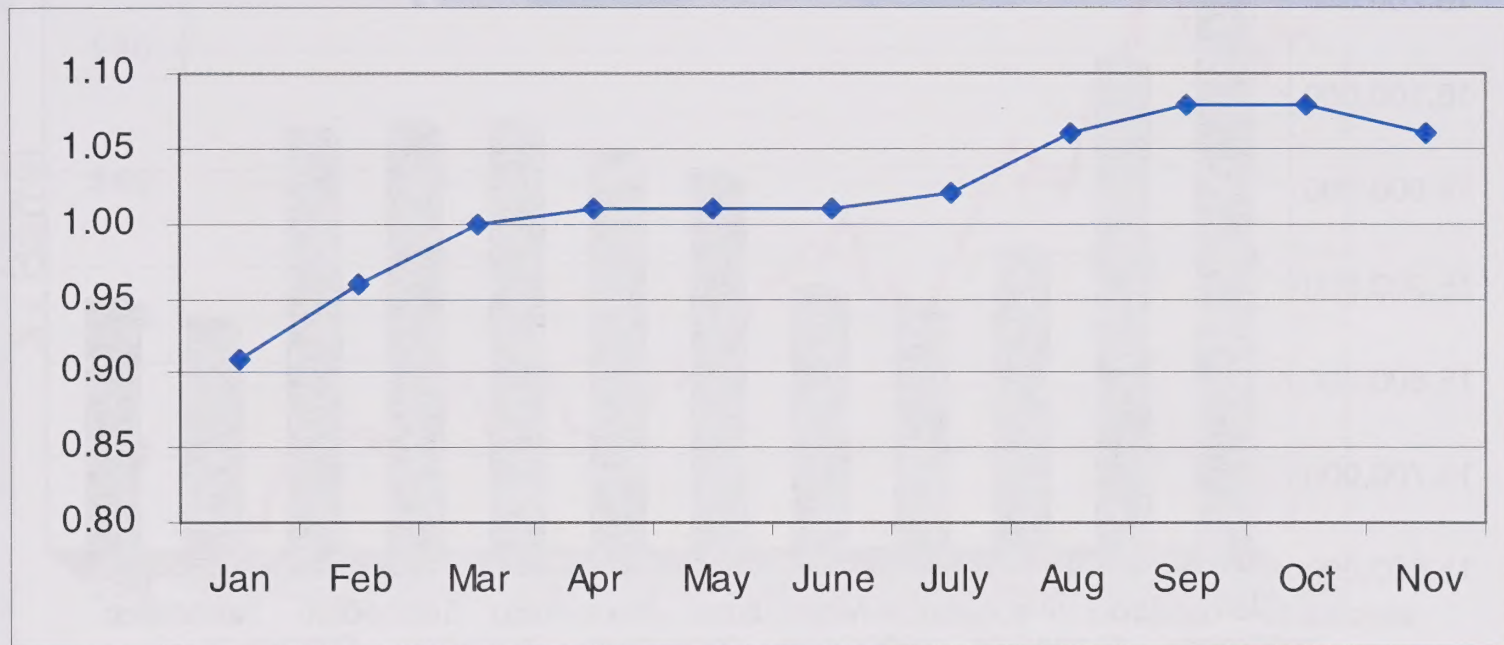
Bay Area Airline Passenger



Source: San Francisco, Oakland, and San Jose International Airports

2007 Book to Bill Ratio

IPC Printed Circuit Boards 12-Month Moving Averages



Source: ABAG

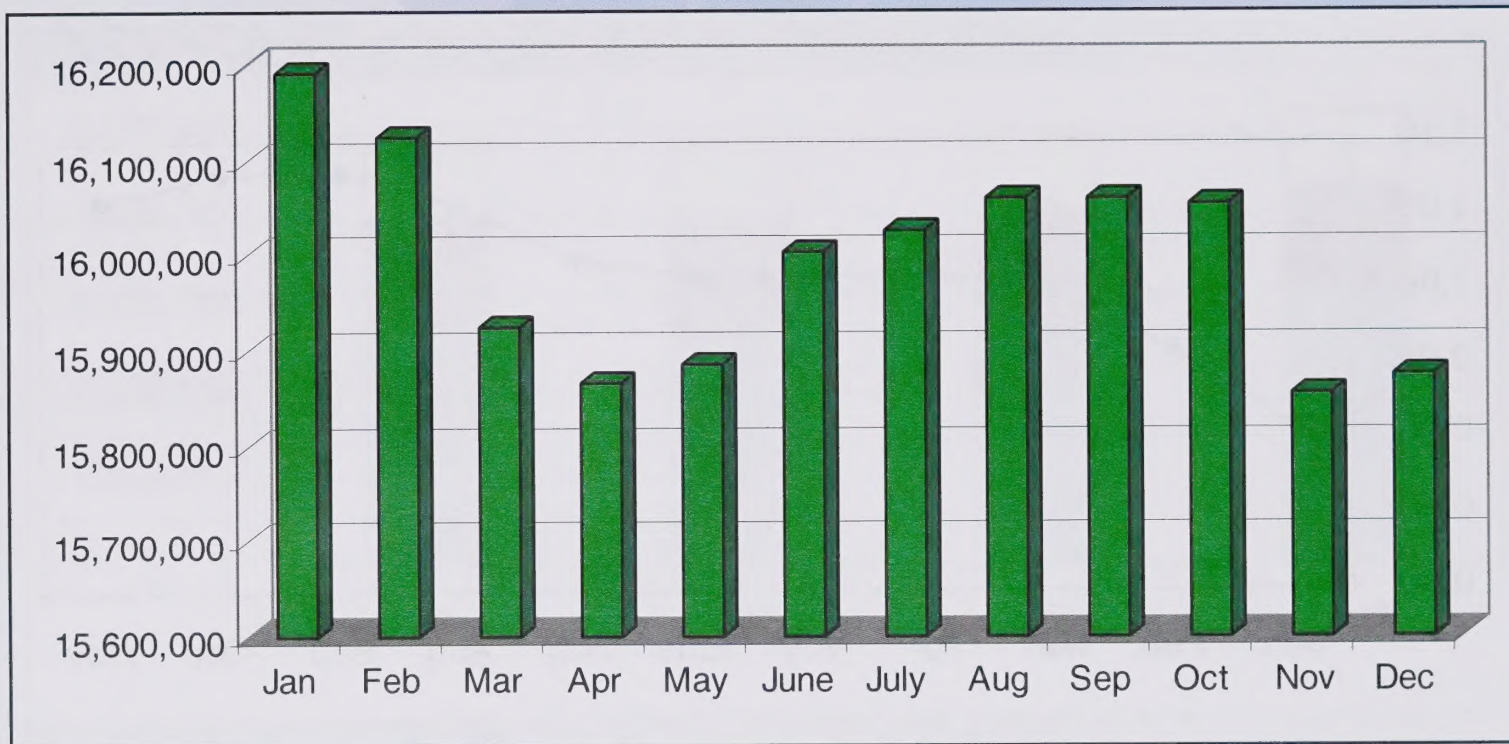
ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

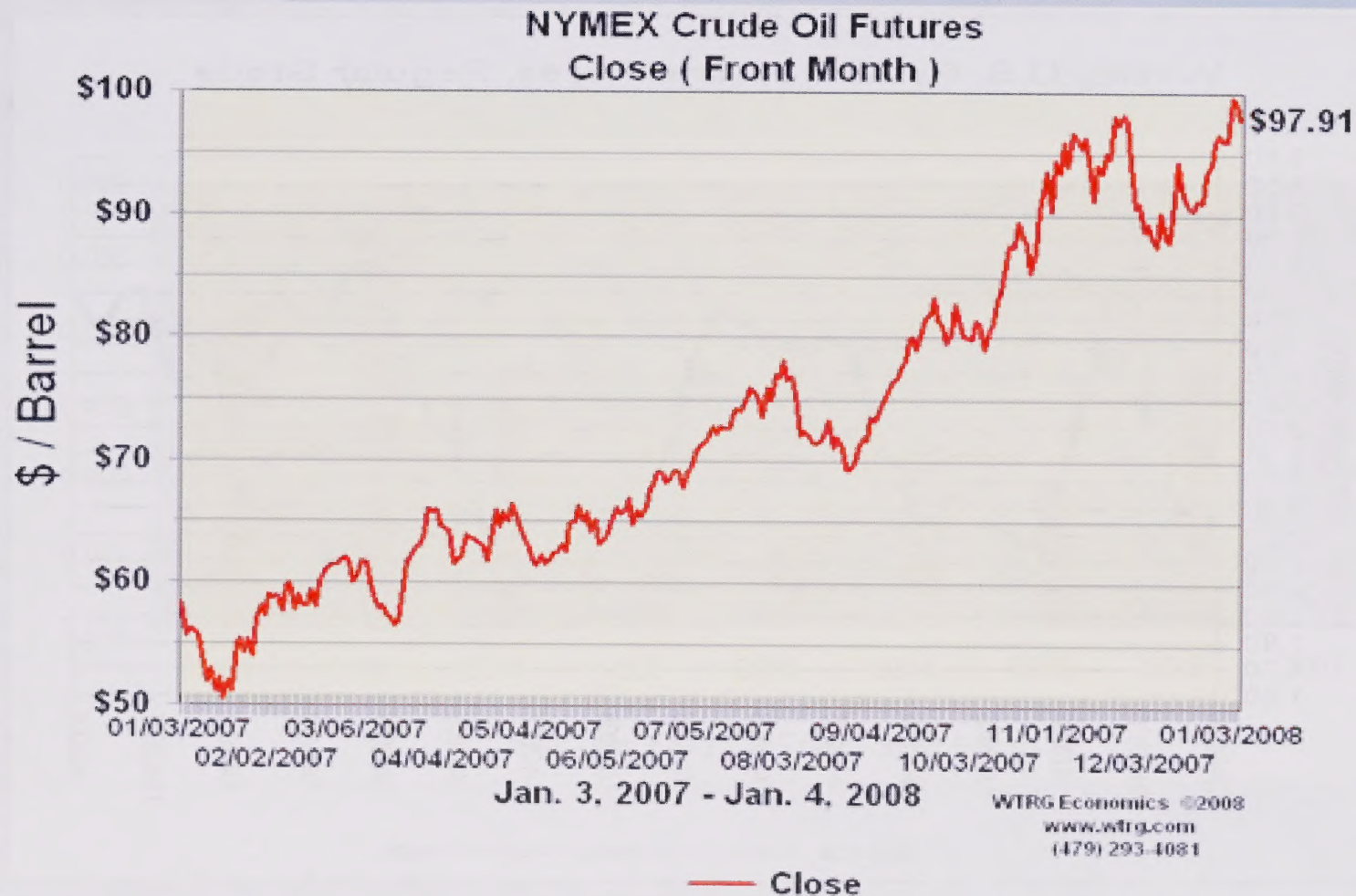
2007 Bay Area Retail Sales

12-Month Moving Average TDA Receipts

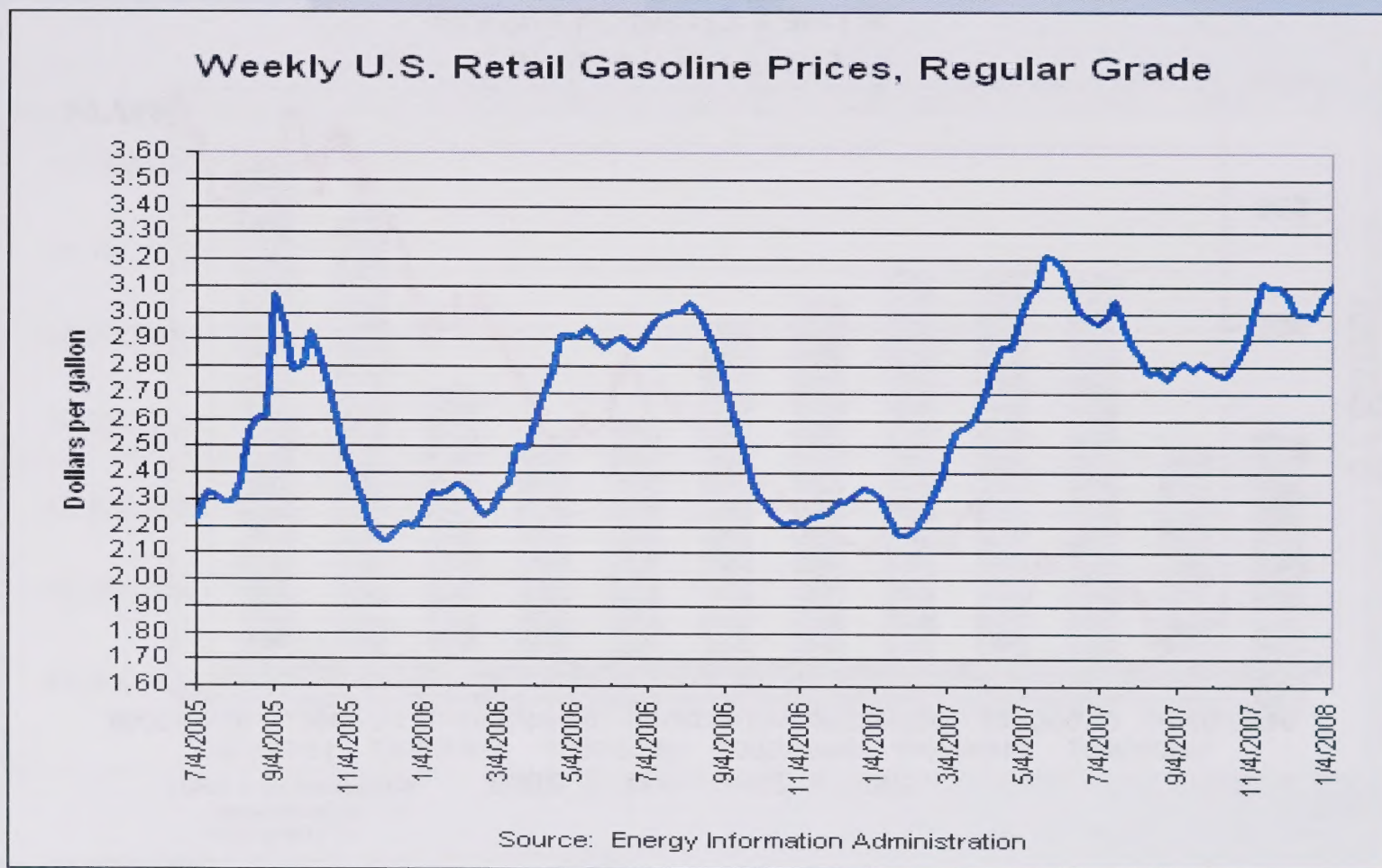


Source: Metropolitan Transportation Commission

Crude Oil Futures

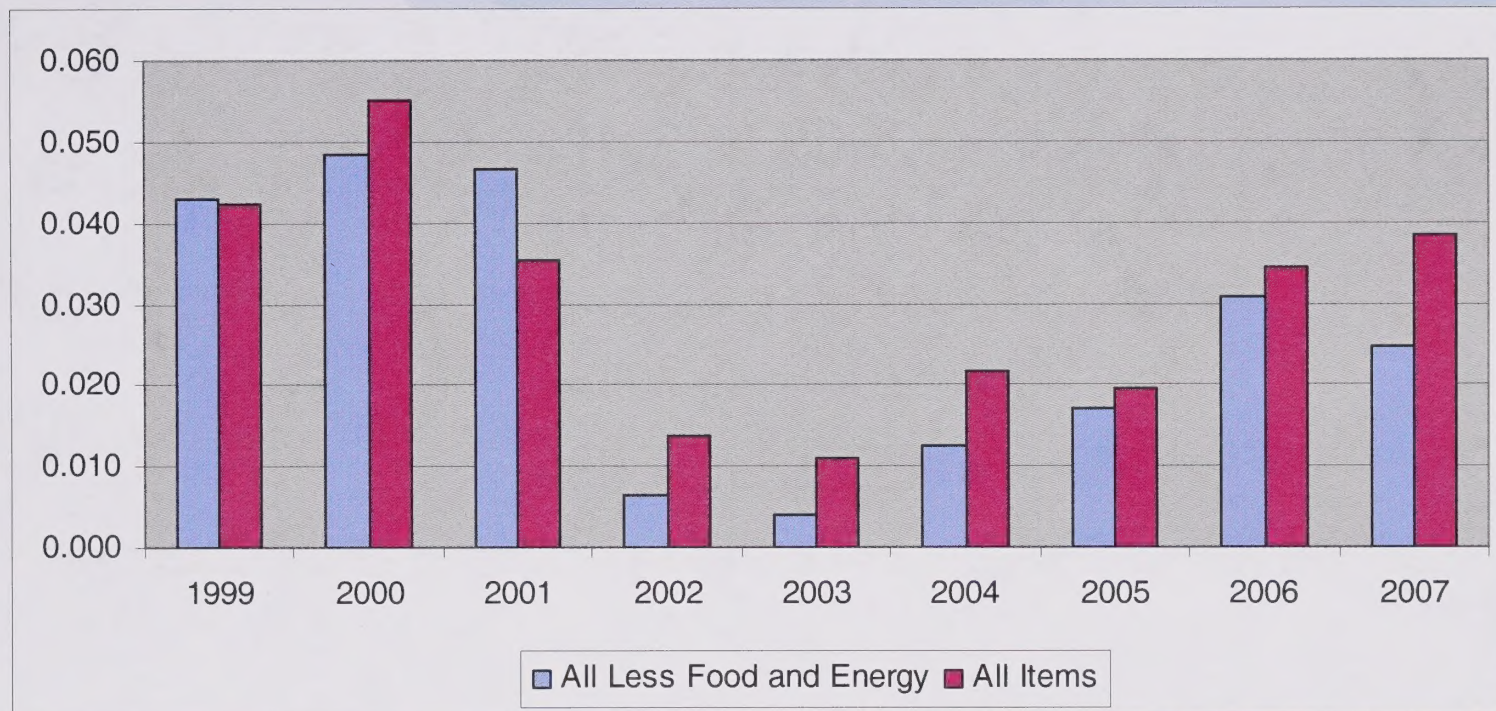


Gasoline Prices



Bay Area Consumer Price Index

All Urban Consumers December to December



Source: Bureau of Labor Statistics

Inflation Rate

San Francisco - All Urban Consumer

- 2004 at 2.2%
- 2005 at 2.0%
- 2006 at 3.4%
- 2007 at 3.8%
- 2008 at 3.4%
- 2009 at 3.0%



Source: Bureau of Labor Statistics, ABAG

ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Slowdown

- A recession is classically two consecutive quarters of negative GDP growth
- Recently employment declines
- Bay Area sensitive to all the national factors
- Businesses here more robust?
- More export-oriented businesses makes a difference?



Growth Ranges for the Bay Area

1990-2007

- Inflation (BLS CPI-U Bay Area)
 - 1.6% to 5.4% annual change
- Household Income
 - -2.0% to 6.3% real annual change
 - 1.2% to 8.5% nominal annual change
- Employment
 - -4.9% to 5.3% annual change
 - -171,300 to 177,200 annual change



Household Income

Constant 2005 Dollars

	2005	2006	2007	2008	2009
Alameda	\$88,800	\$89,870	\$90,769	\$90,769	\$91,223
Contra Costa	\$98,400	\$99,580	\$100,576	\$100,576	\$101,079
Marin	\$121,600	\$123,060	\$124,291	\$124,291	\$124,912
Napa	\$85,900	\$86,930	\$87,799	\$87,799	\$88,238
San Francisco	\$97,400	\$98,570	\$99,556	\$99,556	\$100,053
San Mateo	\$121,700	\$123,160	\$124,392	\$124,392	\$125,014
Santa Clara	\$97,900	\$99,070	\$100,061	\$100,061	\$100,561
Solano	\$84,400	\$85,410	\$86,264	\$86,264	\$86,695
Sonoma	\$82,600	\$83,590	\$84,426	\$84,426	\$84,848
Region	\$97,300	\$98,400	\$99,400	\$99,400	\$99,900



Source: ABAG

Average Annual Employment Growth

Wage and Salary Employment

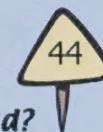
Primary Metropolitan Statistical Areas

	2008	2009
Oakland	2,750	6,000
San Francisco	5,420	8,300
Vallejo	310	600
Napa	600	800
Sonoma	890	1,500
Santa Clara	5,030	8,050
Total	15,000	25,250



Source: ABAG

ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Forecast Summary

	2005	2006	2007	2008	2009
Inflation	2.0%	3.4%	3.8%	3.4%	3.0%
Income Growth	0.8%	4.2%	1.2%	0.0%	0.5%
Job Growth	22,320	27,000	54,100	15,000	25,250



Source: ABAG

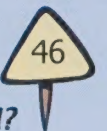
ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Conclusions

- Bay Area Index and its components suggest a possible recession
- Our expectations are for a relatively mild condition
- Energy prices, mortgage industry and state budget continue to cause concerns



Bay Area Retail Sales: The Short-term Outlook

Hing Wong

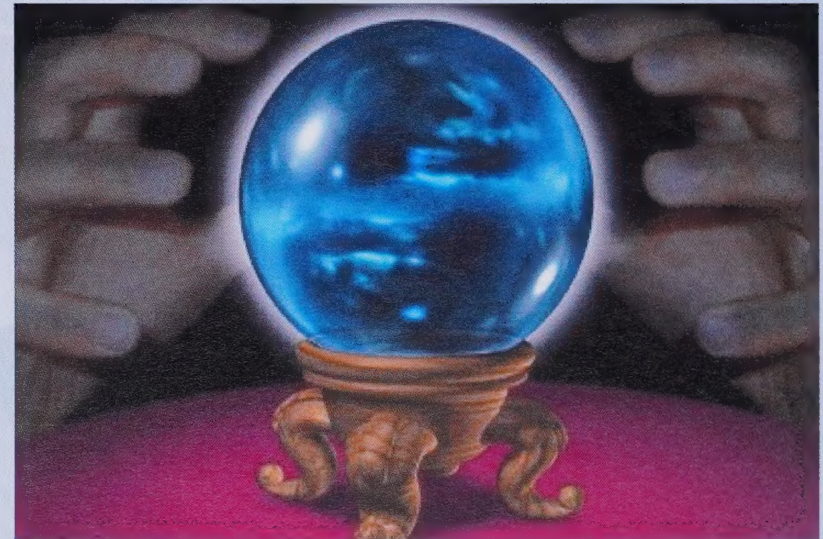
Senior Regional Planner

Association of Bay Area Governments



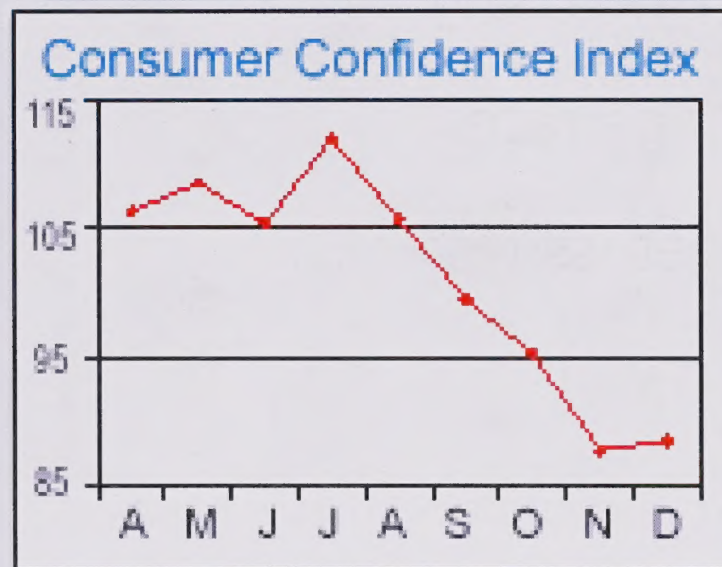
Taxable Sales Forecast

Due to the stock market crisis, the subprime mortgage meltdown, the high energy costs, the housing slowdown, the ongoing war, and the economy in general, consumer confidence has been declining.



Consumer Confidence

- The national Consumer Confidence Index, which had been declining monthly since the summer, posted only a slight increase in December.



Source: The Conference Board

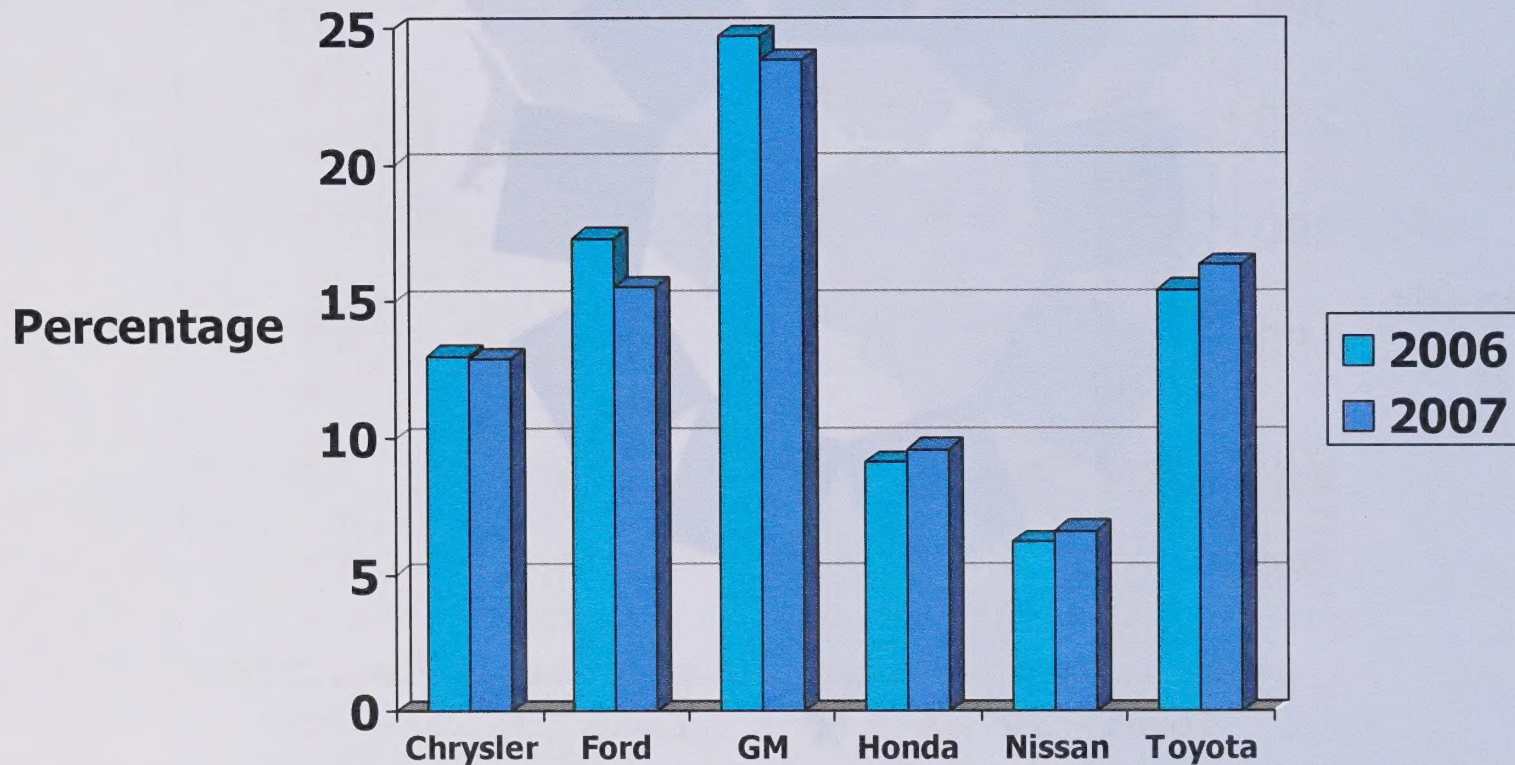
Outlook for Taxable Sales

- Sales slowed during the last half of 2007
- Sluggish national job market may affect the growth
- Unemployment rate rising
- Subprime mortgage rates
- California's budget issues
- National health care



Market Share for Top Six Auto

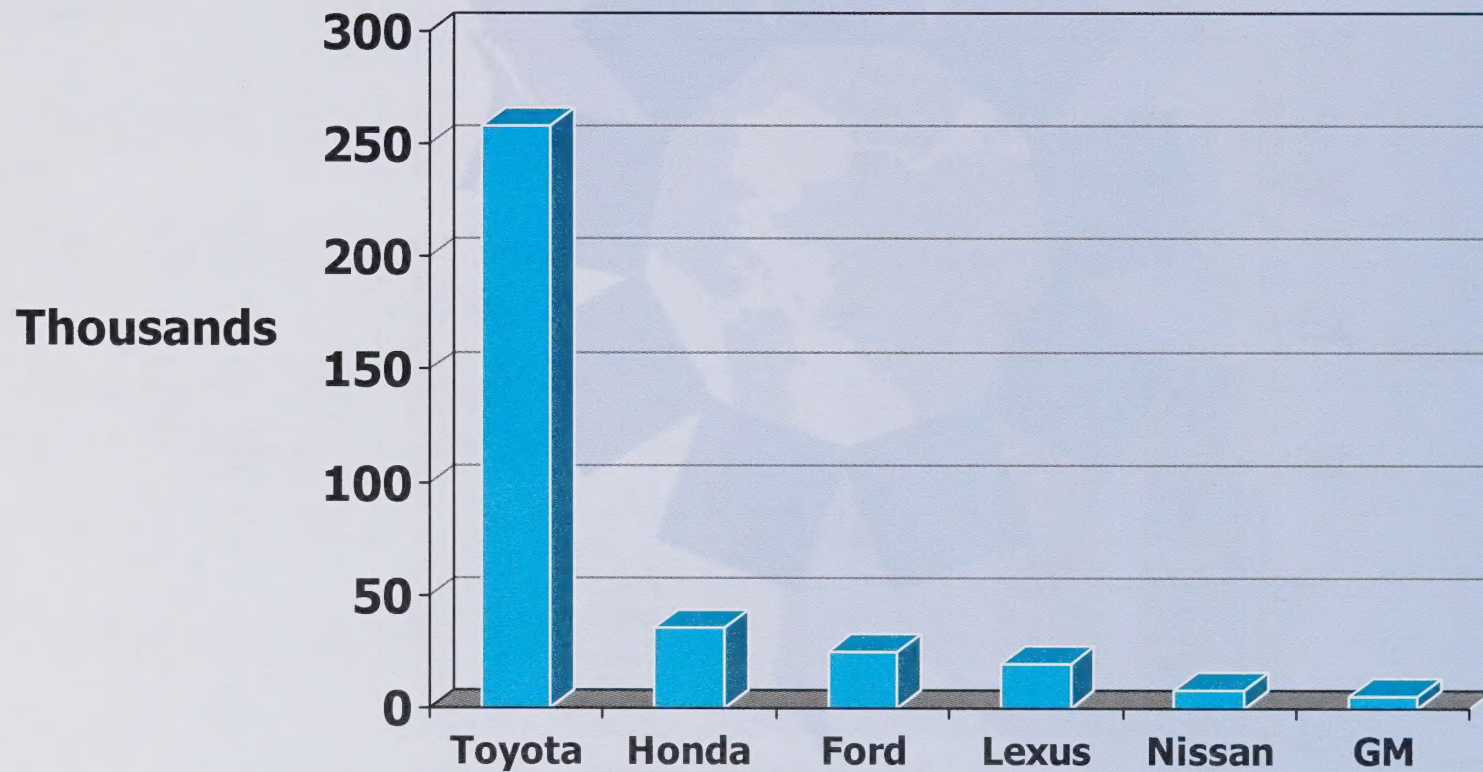
2006 and 2007 Shares for US Sales



Source: autoobserver.com

Hybrid Cars

2007 US Sales

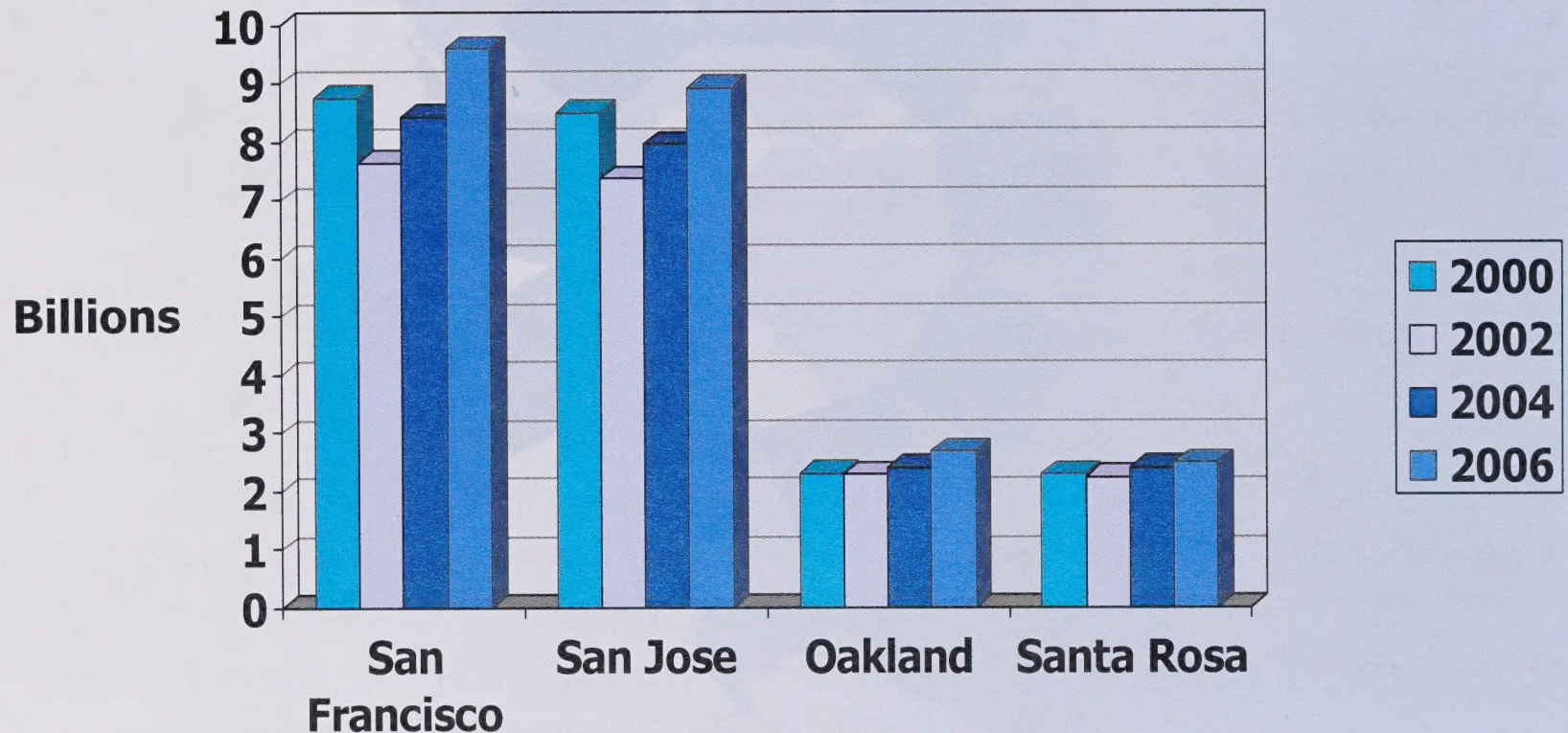


Source: hybridcar.com

ABAG Bay Area Economic Outlook 2008-09

Total Retail Sales

Top Four Bay Area Cities



Retailer Ups & Downs

2006 and 2007 Comparable-Store Sales

General Merchandise

	YTD – Dec 2006	YTD – Dec 2007
■ CVS	8.2%	5.3%
■ Sharper Image	-26.0%	-13.0%
■ Target	4.8%	3.3%
■ Wal-Mart	1.9%	1.0%

Specialty Apparel

	YTD – Dec 2006	YTD – Dec 2007
■ American Eagle Outfitter	11.0%	2.0%
■ The Gap	-7.0%	-5.0%
■ The Limited	7.0%	-2.0%
■ Ross	4.0%	1.0%
■ Saks Fifth Avenue	4.6%	12.3%

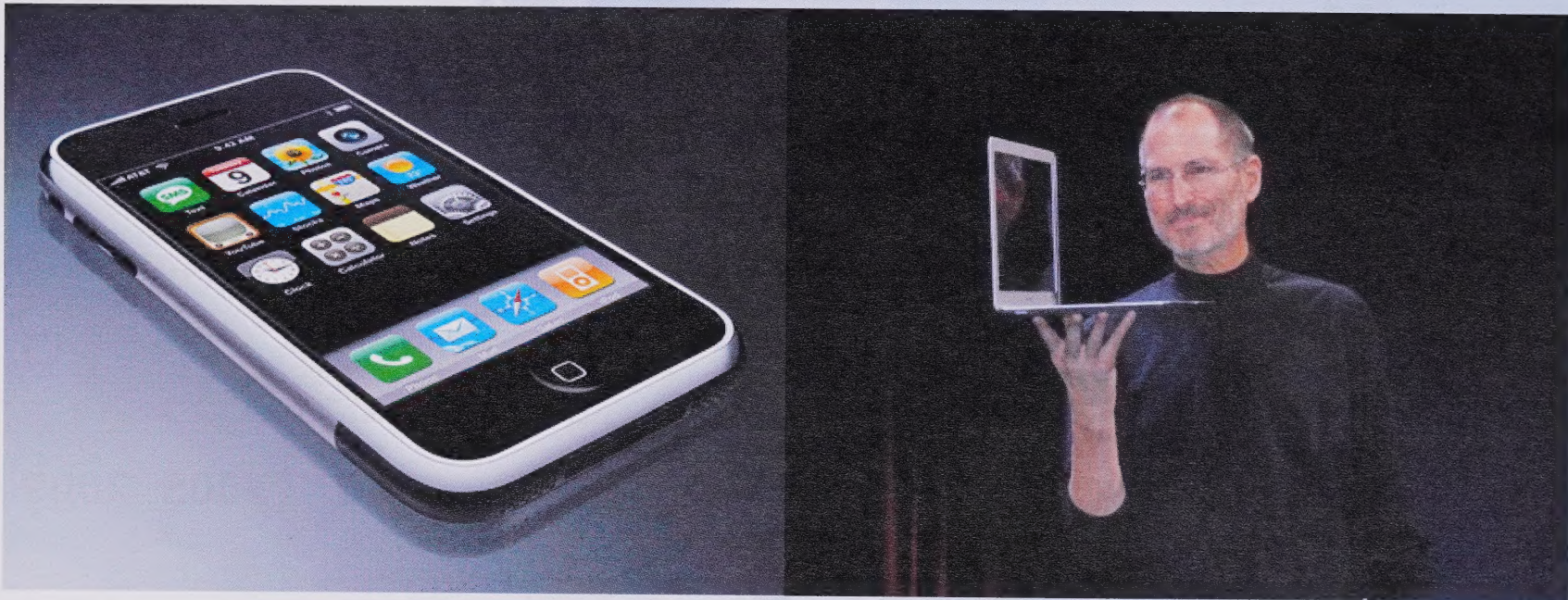
Comparable-Store Sales – YTD for December 2006 compared to December 2005 and
YTD for December 2007 compared to December 2006



Source: Business Wire Retail Report

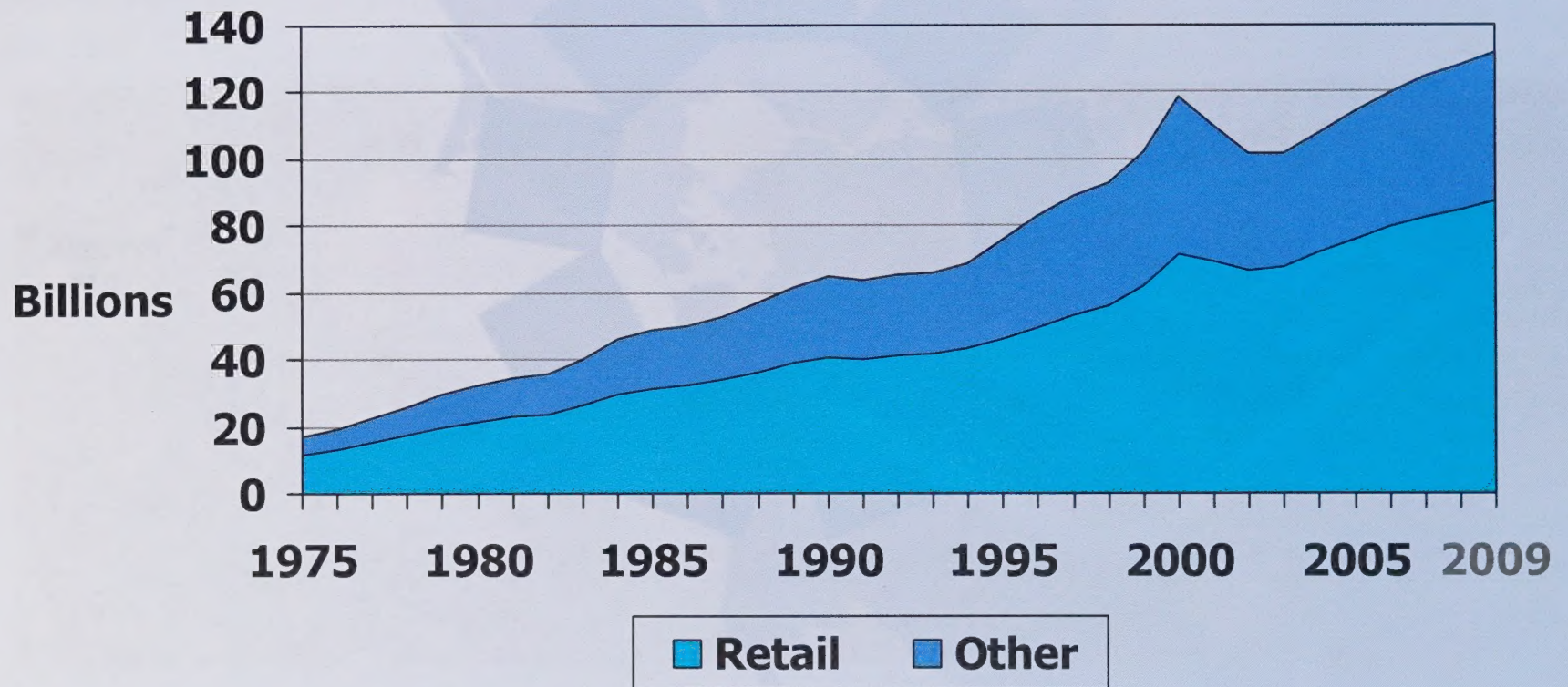


High Ticket Electronic Items



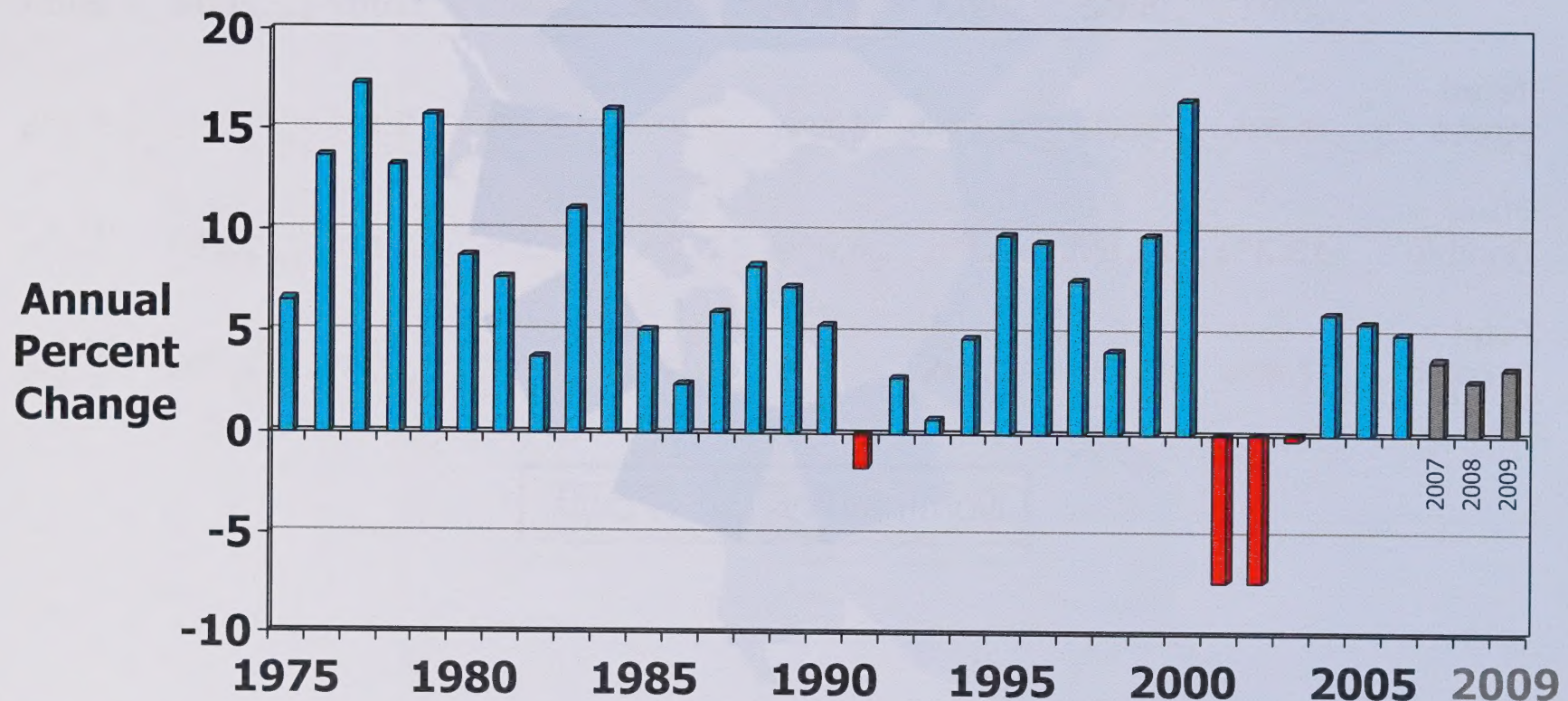
Regional Taxable Sales

San Francisco Bay Area
Nominal Dollars



Taxable Sales Growth

San Francisco Bay Area
Nominal Dollars



Taxable Sales Growth

San Francisco Bay Area

	2001	2002	2003	2004	2005	2006	Estimate 2007	Forecast 2008	Forecast 2009
Retail Stores	-3.6%	-3.5%	1.1%	6.8%	5.7%	3.8%	3.7%	2.6%	3.3%
Other Taxable	-13.3%	-14.0%	-2.8%	4.4%	5.0%	7.5%	3.8%	2.7%	3.3%
Total Taxable	-7.4%	-7.4%	-0.3%	6.0%	5.5%	5.0%	3.7%	2.7%	3.3%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Taxable Sales Growth

East Bay and South Bay

	2001	2002	2003	2004	2005	2006	Estimate 2007	Forecast 2008	Forecast 2009
Alameda	-4.2%	-6.6%	0.5%	7.6%	5.4%	4.0%	3.6%	2.7%	3.7%
Contra Costa	-0.6%	-0.8%	0.5%	6.3%	3.8%	2.9%	3.2%	2.0%	2.9%
Santa Clara	-13.9%	-14.6%	-1.4%	5.3%	6.0%	6.9%	4.9%	3.4%	3.7%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG



Taxable Sales Growth

North Bay

	2001	2002	2003	2004	2005	2006	Estimate 2007	Forecast 2008	Forecast 2009
Napa	2.0%	6.3%	-4.2%	7.4%	9.0%	5.1%	2.8%	1.9%	2.5%
Solano	7.3%	6.9%	5.2%	7.7%	4.9%	6.9%	2.5%	1.9%	2.1%
Sonoma	-0.1%	-1.7%	1.4%	5.8%	6.0%	3.6%	2.3%	1.7%	2.2%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Taxable Sales Growth

West Bay

	2001	2002	2003	2004	2005	2006	Estimate 2007	Forecast 2008	Forecast 2009
Marin	-2.6%	-2.6%	1.1%	4.2%	2.9%	2.7%	2.4%	2.0%	2.5%
San Francisco	-11.6%	-7.0%	-0.8%	6.2%	6.7%	6.6%	4.5%	3.3%	4.5%
San Mateo	-8.4%	-9.7%	-2.2%	4.0%	5.4%	3.6%	2.7%	2.0%	2.6%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

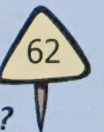
ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Conclusions

- Consumers will continue to feel the economic pinch as retail sales is forecasted to grow by only by 2.6% in 2008 while total taxable sales is forecasted to increase by 2.7%
- For developers, retail developments will be sluggish in the short term



The Residential Real Estate Market: Dire Straights or Recovery by 2009?

Gerald P. Cox

**Director of Sales and Marketing
RealFacts**



What Happened in 2007?

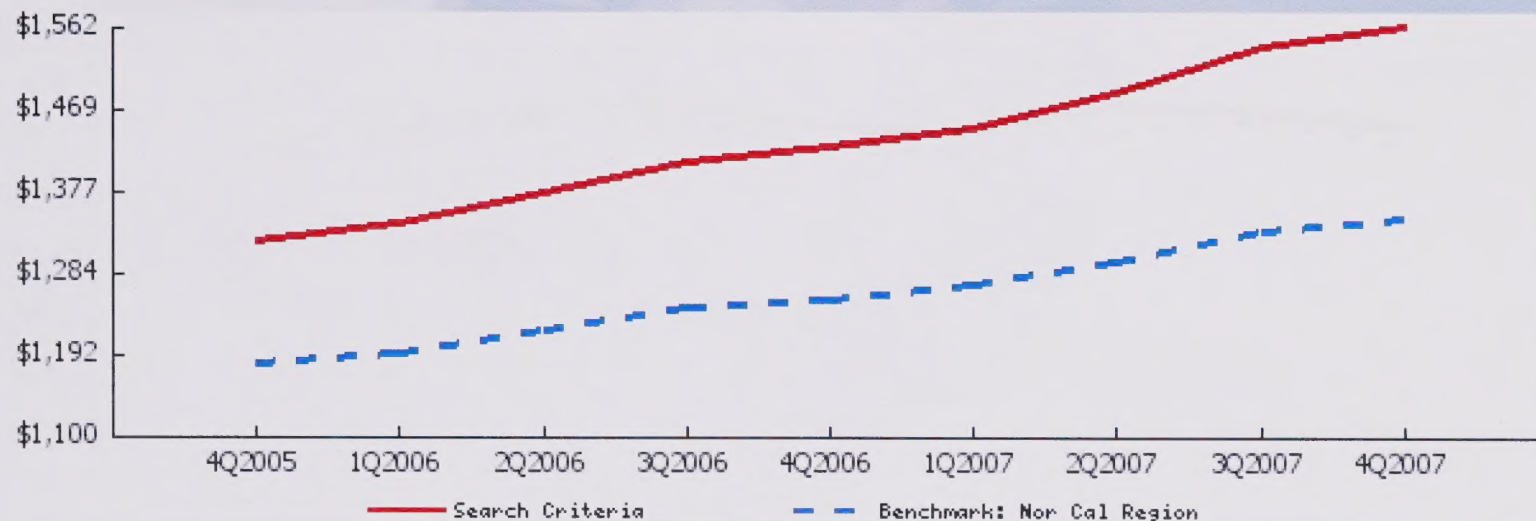
Annual Average Rent Growth
9.4%

From \$1,427 to \$1,562



4Q 2005 Thru 4Q 2007

Average Rent Growth



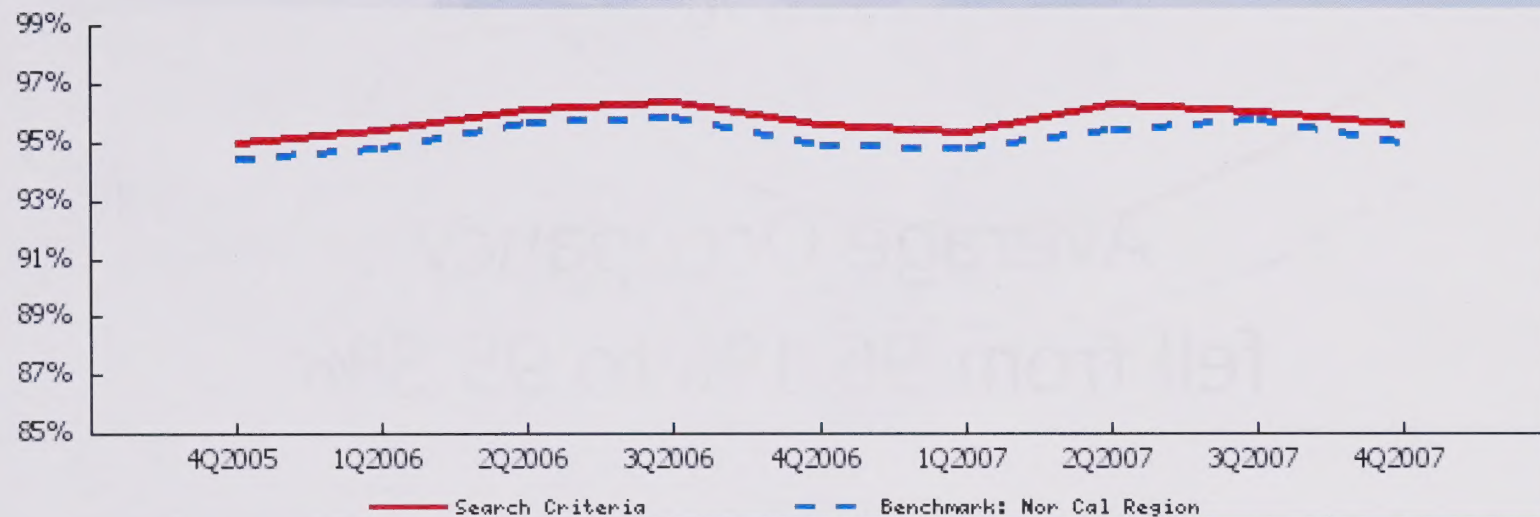
Average Occupancy Growth

0.0%



4Q 2005 Thru 4Q 2007

Average Occupancy



3Q to 4Q 2007

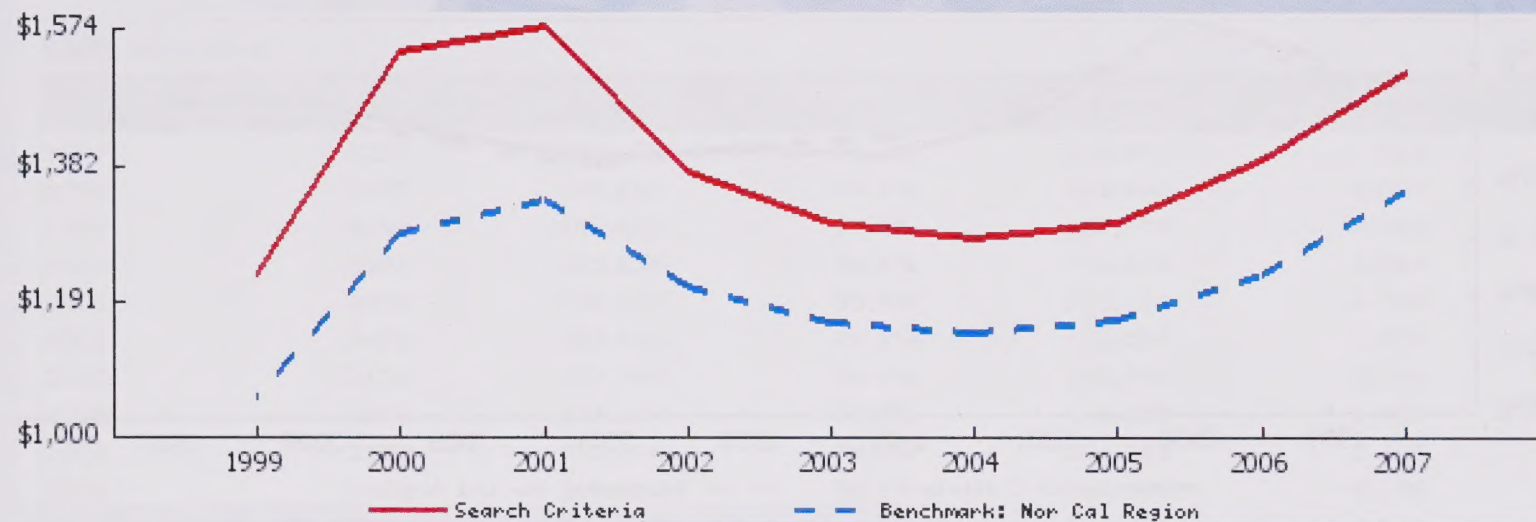
Average Rent Growth
1.5%

Average Occupancy
fell from 96.1% to 95.5%



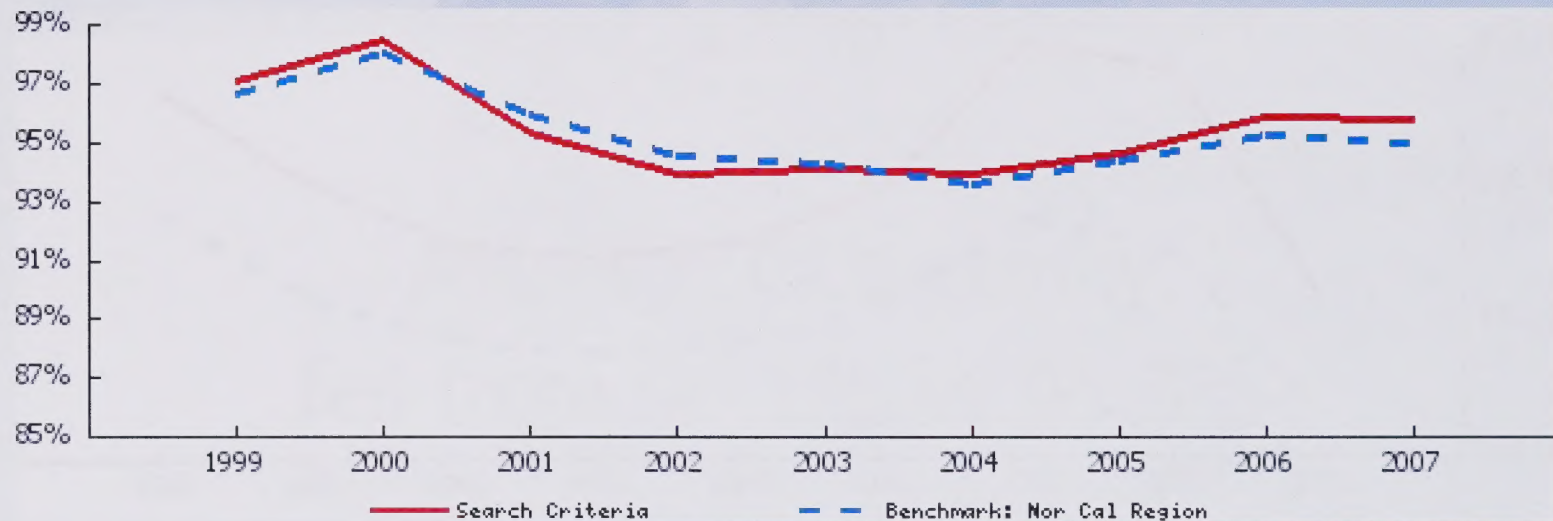
Annual Rent Trend

1999 to 2007



Annual Occupancy Trend

1999 to 2007



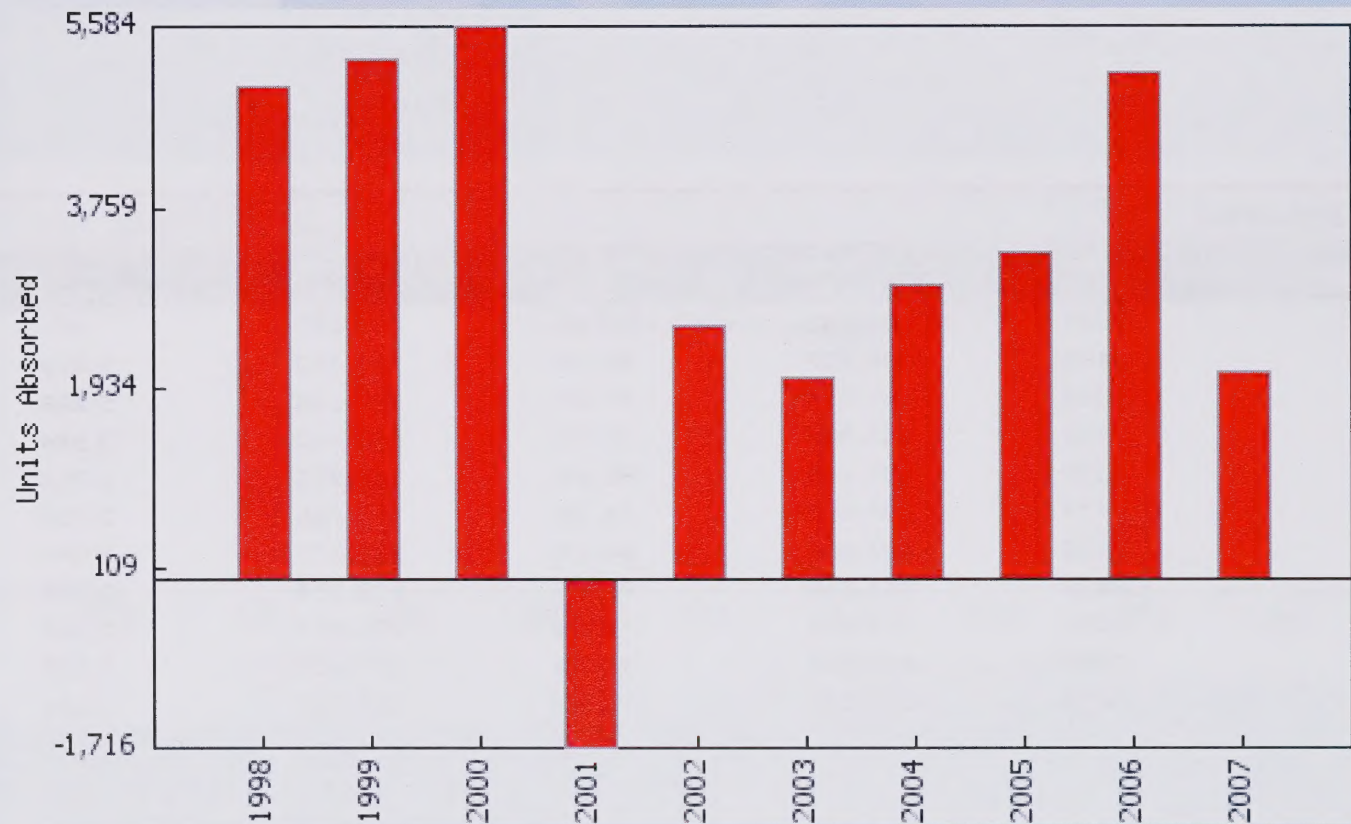
Absorption

Units Absorbed

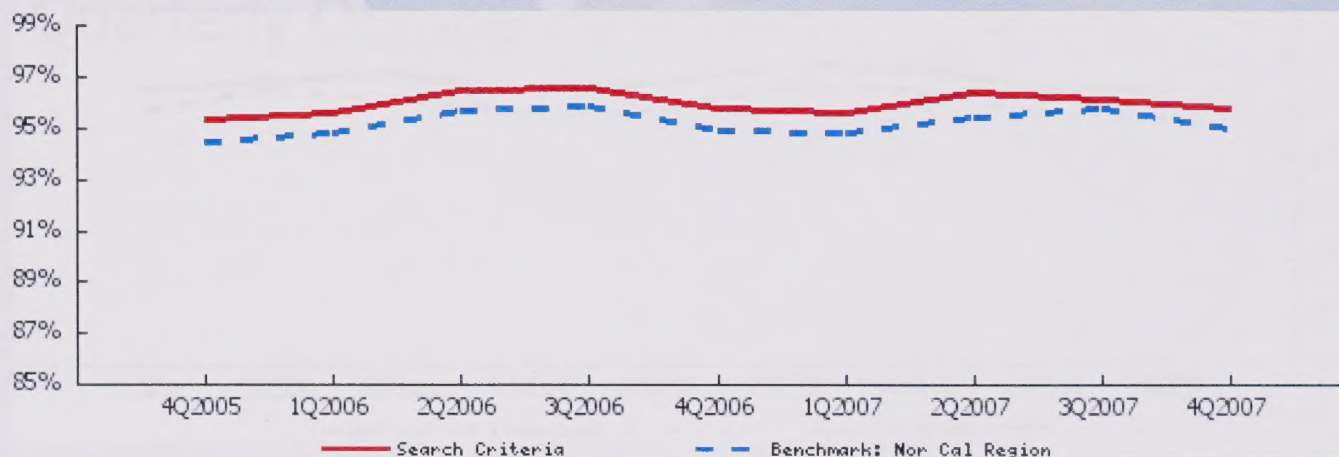
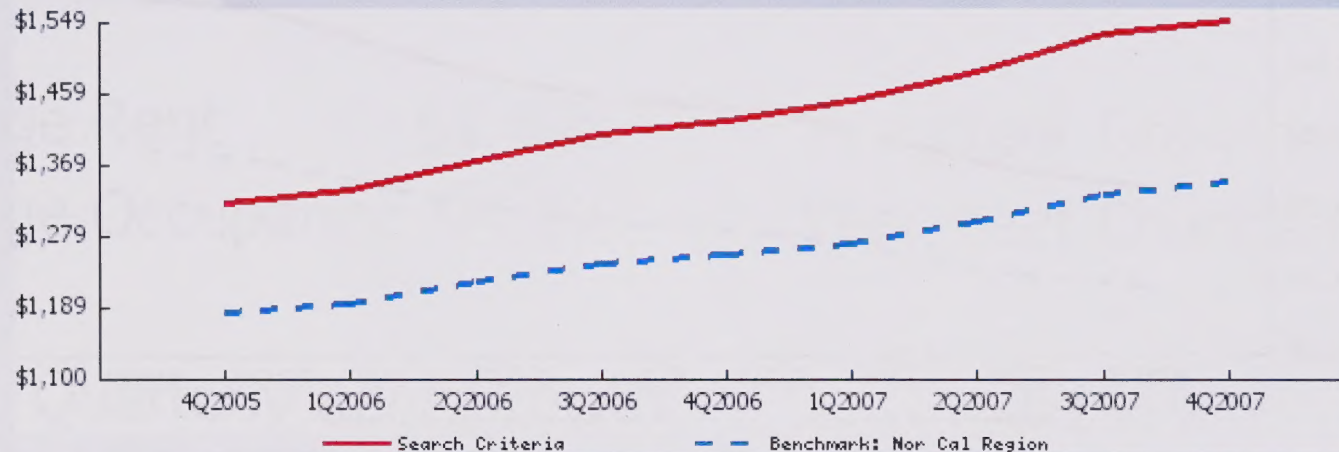
	Units Built	Total Units	Occupancy Rate	Occupied Units	Units Absorbed
1997	2237	183,632	96.3%	176,837	N/A
1998	5195	188,827	96.3%	181,840	5,003
1999	4068	192,895	97.0%	187,108	5,268
2000	2931	195,826	98.4%	192,692	5,584
2001	4359	200,185	95.4%	190,976	-1,716
2002	5475	205,660	94.1%	193,526	2,550
2003	2173	207,833	94.1%	195,570	2,044
2004	3396	211,229	94.0%	198,555	2,985
2005	2157	213,386	94.6%	201,863	3,308
2006	2466	215,852	95.9%	207,002	5,139
2007	2405	218,257	95.8%	209,090	2,088



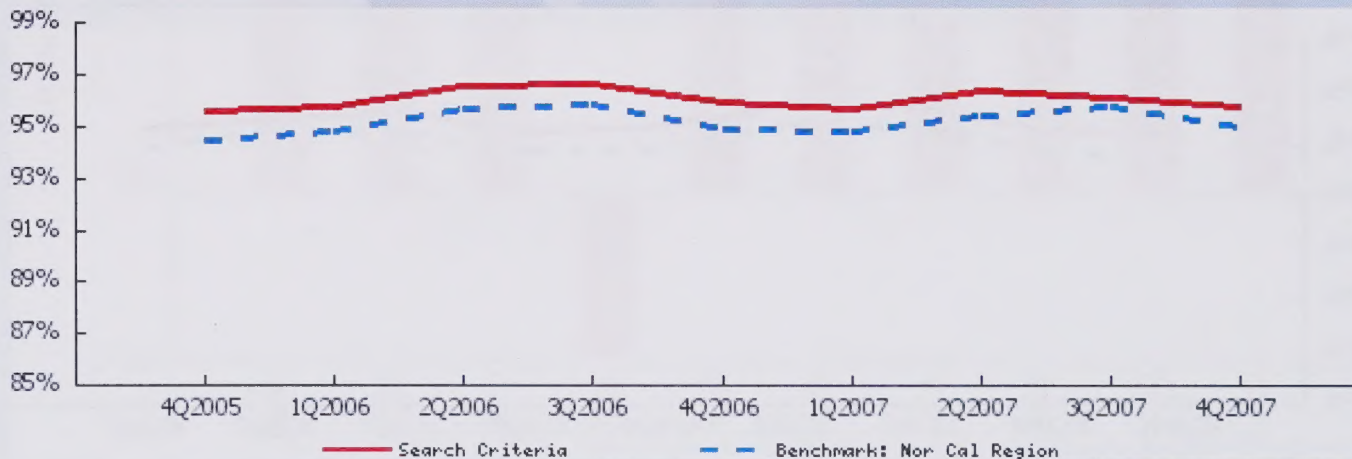
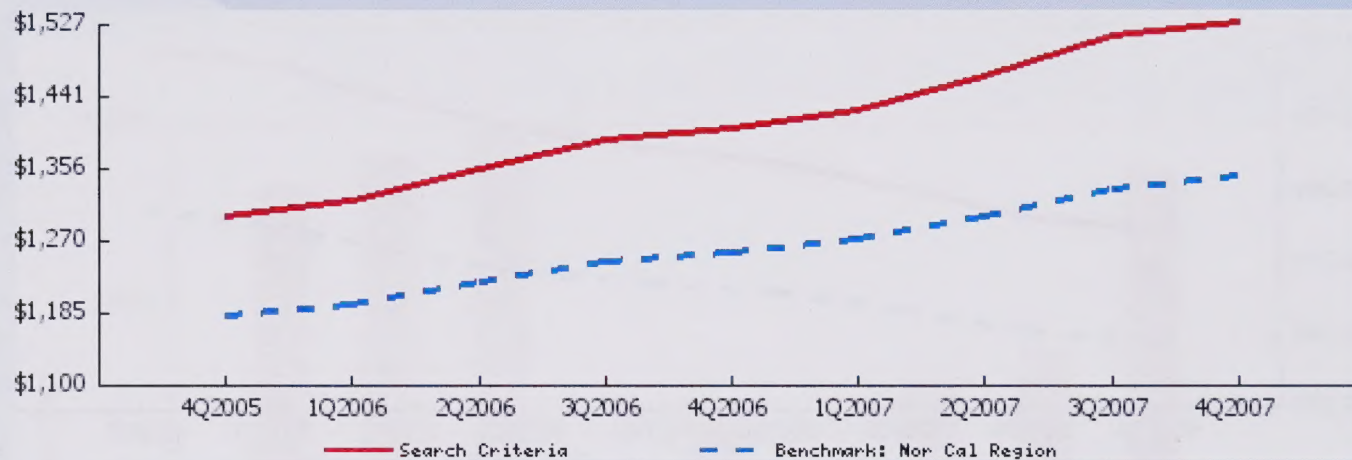
Absorption



Properties Built In/Prior to 2004



Properties Built In/Prior to 2001



The State of California

Average Rent	\$1,428	Year/Year Growth	5.6%
Average Occupancy	94.4%	Year/Year Change	-0.1%
Quarterly Rent Growth		1.1%	
Quarterly Occupancy Growth		-0.9%	



U.C. BERKELEY LIBRARIES



C104725094

